

# MICRO FINANCE IN BIHAR: PERFORMANCE AND CHALLENGES

Surjit Singh\*

*Grameen Bank in Bangladesh is seen as the beginning of micro finance movement, though almost at the same time several other initiatives were taken in micro finance. The domain of micro finance has spread since then with the adaptation and evolution of the idea in various countries and contexts. Several other innovative models in micro finance have developed. Micro finance is now hailed as one of the most powerful instruments of poverty alleviation worldwide. The term "Micro finance" could be defined as "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi urban or urban areas, for enabling them to raise their income levels and improve living standards". Banking sector has also played an important role in promotion of micro finance. Micro finance Institutions (MFIs) are those, which provide thrift, credit and other financial services and products of very small amounts mainly to the poor in rural, semi-urban or urban areas for enabling them to raise their income level and improve living standards. Lately, the potential of MFIs as promising institutions to meet the consumption and micro-enterprise demands of the poor has been realized. It is estimated that in India has approximately 7.5 crore poor households, out of which 6 crore are rural and 1.5 crore are urban households. One estimate assumes that the total annual requirement of credit for the rural poor families would be at least Rs 15000 crore on the basis of a maximum need of Rs 2000 per family. Another estimate for requirement of credit (excluding housing) is Rs 50000 crore assuming that annual average credit usage are Rs 6000 per rural household and Rs 9000 for poor urban household. An additional Rs 1000 crore is estimated to be required for housing per year. Apart from micro-credit, they require savings and insurance also. The above scenario, suggests a vast unmet gap in the provision of financial services to the poor. Moreover, 36 per cent of the rural households are found to be outside the fold of institutional credit (NSSO 2005). This paper, thus, is an attempt to look at micro finance sector in Bihar and challenges it faces.*

## GROWTH OF MICRO FINANCE

The growth of micro finance is visible in many aspects. There are more than 2000 NGOs involved in the NABARD SHG-Bank linkage program. Out of these, approximately 800 NGOs are involved in some form of financial intermediation. Further, there are 350 new generation co-operatives providing thrift and credit services. According to one estimate, the present total outstanding, including Sa-Dhan members and bank linkages is approximately Rs 700 crore (Rs 150 crore of Sa-Dhan members and another Rs 550 crore from the banking system). The total client base is estimated at 60-80 lakh as when the Government of India's (GoI) intention is to reach 250 lakh clients. The growth of community institutions has taken place with the role to take social and financial intermediation. A numbers of community banks have come into existence at village and block levels call it Federation of Self-Help Groups.

The inadequacies of the formal financial system to cater to the needs of the poor and the realization of the fact that the key to success lies in the evolution and participation of community based organizations at the grassroots level has led to the emergence of new generation of MFIs. One kind of MFI is an NGO engaged in promoting Self- Help Groups (SHGs) and their federations at a cluster level and linking SHGs with banks under the scheme<sup>1</sup>. Another kind is NGO-MFI directly lending to the poor borrowers, who are either organized into SHGs or into Grameen Bank type of groups after borrowing bulk funds from SIDBI, RMK and FWWB<sup>2</sup>.

\* Director, Institute of Development Studies, Jaipur, Rajasthan

## BIHAR: A BACKGROUND

Bihar is a landlocked state situated in the eastern most part of the north Indian politico-geographical zone. The state is 12th largest in terms of geographical size (94163 sq. km) and 3rd largest by population (8.28 crore) in the country. It is also known for its abundant natural resources, perennial rivers, fertile lands and a long glorious history. In spite of all these conditions, the state remained one of the poorest states in the country since independence. Condition further deteriorated after the state's division in 2000. The state retained almost 75 per cent of the population, while it was left with only 54 per cent of the land and a lot of strain on resources.

**Table 1: Bihar at a Glance**

Area	94163 sq. kms
No. of divisions	9
No. of districts	38
No. of blocks	534
No. of Panchayats	8471
No. of Villages	45103
Population	82878796
Female	39724 832
Population Density	880 per Sq km
Sex Ratio	921 (Highest Siwan- 1033, Lowest Patna- 873)
Literacy Rate	47.53% (India- 65.2%)
Female Literacy Rate	33.57%
Households	13744130
Agricultural workers	1100424
Household industry workers	5262817
Poverty ratio	42.56% (India-26%)
SC population	15.70% (India-16.2%)
ST population	0.90% (India- 8.2%)
Average land holding	0.75 ha (India-1.57 ha)
Human development index	0.367 (India- 0.472)
Infrastructure development index	91.31 (India- 100)
Languages spoken	Hindi, Urdu, Bhojpuri, Magadhi, Maithili
Religions	Hindus, Jains, Muslims, Christians
Source - www.gov.bih.nic.in and Source: Census of India 2001, HDR 2001.	

Table 1 gives a glance at the general scenario of the state. It is rightly pointed out that “state’s performance lags seriously behind national trends...if Bihar does not enter the mainstream of national economic growth and prosperity, its performance will continue to widen significantly”<sup>3</sup>. If we go into the details of Bihar’s backwardness, the statistical figures show that 42 per cent of the state’s rural population is below poverty line, accounting for about almost one-fifth of the country’s rural poor<sup>4</sup>. It has the lowest per capita income in the country with only Rs 5772 against national average of Rs 22946. Bihar recorded a decennial population

growth rate of 28.4 per cent during 1990-2000 with a density of almost 880 against 234 of Indian average. If we further characterize poverty in terms of deprivation of basic human needs - food, shelter, safe drinking water, sanitation, health services, education, and amenities - the Bihar is much poorer.

Bihar is a poor state with a huge deficit in institutions providing credit. The poverty ratio in Bihar is 42.56 per cent, which is very high in comparison to Pan India's poverty ratio of 26 per cent. The reasons cited for persistent poverty and backwardness in Bihar is multi-fold. High rate of population growth, under-investments in the key sectors of agriculture and education, heavy dependence on the agricultural sector for employment, non existence of agro-support industries, natural calamities like floods (22 districts are flood-prone), and above all poor political vision are some of the often cited factors. The Sector Report of NABARD quoted infrastructural poverty also as one of the severe problems in the state. Women's condition in the state is even worse. According to the Planning Commission's National Human Development Report (NHDR), 2001, female life expectancy in Bihar in 1992-96 was mere 55 years. NHDR shows that in 1991 around one in four women in rural Bihar were expected not to survive beyond the age of 40, while in Kerala the comparative figure was one in 25. Female literacy rate is also as low as 35 per cent, much lower than the national average (54%). There is a criticism that the state's efforts in the improvement of the status of women are not very significant.

Bihar has 3735 banking institutions compared to 73836 in India (5.1% share). This gives a population of 25000 being served a bank office compared to 16000 at the national level (Table 2). The credit deposit ratio is less than half of the national average. During 2007-08, 19370 new SHGs were bank credit linked (3.5% share) and 6873 new SHG bank accounts were opened. Savings of SHGs with banks amounted to Rs 5059.6 lakh while this amount was Rs 351270 lakh at the national level (1.4% share). It is also observed that during 2007-08, amount disbursed under SHG-bank linkage scheme was Rs 112.75 crore which is 2.7 per cent share in total country's SHG savings with banks.

**Table 2: Banking Network in Bihar (as on July 2008)**

Items*	Bihar	India
Total number of bank branches (Including RRBs and Co-operative Banks)	3735	73836***
Bank branch per '000 population	25	16
Credit Deposit ratio	33.48%	74.2%
Number of new SHG Bank A/cs opened in 2007-08	6873	NA
Number of new SHG Bank credit linkages in 2007-08**	19370	552992
Source: *- 24th SLBC Review Meeting Report, 31st March 2008. **- NABARD@ SLBC meeting July 2008 and Microfinance State of the Sector Report 2008. ***- Bihar Economic Survey 2006-07, Govt. of Bihar.		

## SPREAD OF SHGS

Based on the available data, one can say that there are more than 2.76 lakh SHGs in Bihar. However, there might be an overlap in the numbers quoted by different agencies<sup>5</sup> and the figure might not have excluded the defunct SHGs, which could be large. Another point is that data of SHGs promoted by NGOs is not clear, as there is no evidence of compilation of data at state level (Table 3). One can notice that in case of many NGOs, the number of SHGs formed may be much higher than the number of SHGs that receive promotional support from different agencies or projects. It can also be noticed that there are several small NGOs promoting SHGs that await formal support from major agencies. However, given this fluid situation,

one can still put a number out on SHGs (NABARD has started producing an annual report of SHGs now).

**Table 3: Number of SHGs promoted by Agencies**

<b>SHPI</b>	<b>No. of SHGs promoted (2008)</b>
NABARD (up to March 2008)	92008
SGSY (up to June 2008)	131913
PACS (up to March 2008)	4500
Bihar Mahila Samakhya (up to September 2008)	3789
WDC (up to March 2008)	10825
BRLPS (up to September 2008)	2432
NGOs	Na
CBOs	Na
Total	245467

As regards the geographical spread of SHGs in Bihar, most of the SHGs are concentrated around the major cities of Muzaffarpur, Bhagalpur, Gaya and Patna. The northern districts of Madhubani, West Champaran, Dhabhanga and Nawada have good number of SHGs. Districts like Shekpura, Sheohar, Lakhisarai, Arwal and Madhepura, which are backward districts, have less number of SHGs.

## **ROLE OF THE GOVERNMENT AND SHGS IN BIHAR**

Aiming at the Bihar's development, the central government initiated many programs in the state. Though the Bihar government has done little innovation, it has accommodated the programs that came its way. From the beginning, the Departments of Rural Development, Women and Child Welfare, Economic Affairs, etc. have been playing an important role in the promotion of the SHG movement in Bihar. Specifically, the Department of Rural Development has undertaken several projects using SHG model. Most of these projects were implemented through the government promoted agencies like DRDA and WDC. Among all the projects implemented, the Department of Rural Development's program SGSY is taking a crucial role in the promotion of SHGs. The department acts as a nodal agency for other SHG promotional agencies and working closely with RBI and NABARD that play a development and monitoring role in Bihar. It encourages banks to develop policies related to lending to SHGs. Thus, in a way the Department of Rural Development is the major promoter of SHGs. When it comes to early projects, which were based on the SHG model in Bihar, Rashtriya Mahila Kosh, Indira Mahila Yojna and Swarna Jayanti Gram Swarajgar Yojna are the major projects. The DFID funded Poorest Area Civil Societies (PACS), is also a major project that contributed very much to the SHG promotion in the state. And importantly, the government promoted agencies like Mahila Samakya, WDC, BRLPS, etc have been taking a major promoter role in the state; some of them delivering services through NGOs. The projects and the agencies that were and still are in the promotion of SHGs and their nature are discussed next.

### **Bihar Mahila Samakya (BMS)**

Bihar Mahila Samakya Society, a central government project, is one of the earliest projects that started forming and nurturing women self-help groups in Bihar. It started work with four districts initially in 1992 but now had expanded its work to 14 districts. The main objective of Mahila Samakya is to empower women through education. Though its main focus is on social intermediation, specifically the gender equity issues, considering the need for economic empowerment it also encouraged the formation of thrift and credit groups. By September 2008, Mahila Samakya formed about 5109 groups with 3789 being thrift

and credit groups. Of the thrift and credit SHGs, 314 SHGs are linked to NABARD and 600 are linked to SGSY. In early 2000, Mahila Samakya went into formation of federations as higher-level apex bodies for sustainability of SHGs. Till date it has promoted 45 cluster level and 9 block level federations. Of the 9 block level federations, 7 are registered under the Societies Act. All these federations are mostly in social intermediation.

### **Rashtriya Mahila Kosh (RMK)**

Rashtriya Mahila Kosh (National Credit Fund for Women) is an independent registered society established by Central Ministry of Women and Child Development in 1993. RMK was an innovative mechanism for providing credit to poor women, to fill the gap between what the banking sector offers and what the poor need. RMK facilitates micro-credit support to the poor women for income generation, production, skill development and housing activities in order to make them economically independent. It mainly channelized its support through NGOs, Women Development Corporations, Cooperative Societies, SHGs formed under different projects like Swayamsidha or Swa-Shakti etc. RMK encourages formation of SHGs for promotion of thrift and credit leading to income generation activities. RMK designed very innovative schemes and products for the benefit of poor women. It provides support to NGOs with 5 years of experience in running micro credit programs in the form of bulk lending to the extent of Rs 5.0 crore. Even federations with good track record are eligible. RMK has different schemes like Working Capital Term Loan Scheme and Family Loan Scheme for the benefit of SHGs and SHG members. Working Capital Term Loan Scheme is designed to encourage livelihood activities and Family Loan Scheme covers all the expenses of a family- medical, marriage, education, purchase of food grain and food stuff in bulk, ration, clothing, funeral/birth and also festival and other religious expenses. However, aggregate finance for all purposes should not exceed seven times of savings of the beneficiary or Rs 10000 per year, which ever is lower. The beneficiary should save at least 15 per cent of the amount taken as loan, which is considered as margin money. The interest charged under different schemes is 5-8 per cent on reducing balance. RMK is offering many other schemes as well. As per June 2006 data, RMK extended support to 15426 women through 1543 SHGs in Bihar and disbursed an amount of Rs 325.83 lakh of the sanctioned Rs 397.25 lakh. RMK during 2002-03 financed 61 NGOs. NIDAN was the major partner NGO in Bihar. NIDAN received Rs 118 lakh from RMK during 2004. For unknown reasons RMK has not released any funds to any organization in Bihar in 2008. It appears that RMK has blacklisted many agencies due to bad performance.

### **Indira Mahila Yojana (IMY)**

The first SHG based women's empowerment program of Ministry of WCD, Indira Mahila Yojna (IMY) was launched in 1995-96. It aimed at organizing women at grass root level to facilitate their participation in decision-making and their empowerment. The program thought of not only SHGs but also clusters and block federations. However, the scheme was not a success because it had no structured training programs and there was no provision for monitoring, administrative expenses etc.

### **Swarnajayanti Gram Swarojgar Yojna (SGSY)**

SGSY is a centrally sponsored program for the rural poor launched in April 1999. It has replaced many of the earlier self-employment and allied programs like Integrated Rural Development Programme (IRDP), Training of Rural Youth for Self-Employment (TRYSEM), Development of Women and Children in Rural Areas (DWCRA), Ganga Kalyan Yojana (GKY) etc. SGSY has taken into account all the strengths and weaknesses of these programs and designed itself as a credit-cum-subsidy program that covers all aspects of self-employment, such as organisation of poor into self-help groups, training, credit technology, infrastructure and marketing.

**Table 4: SGSY Program in Bihar (in lakh)**

Districts	No. of SHGs formed		Credit	Subsidy
	Since 1.4.99	During 2007-08	Disbursed to SHGs	Disbursed to SHGs
Siwan	1691	141	224.73	101.30
Saran	2126	130	294.98	158.30
Sheohar	730	305	256.75	128.37
Supaul	1396	378	522.25	220.00
Madhepura	904	229	448.61	196.40
West Champaran	3310	280	466.45	452.55
East Champaran	2970	784	478.11	222.90
Gopalganj	982	710	204.00	99.81
Arwal	257	25	22.75	3.64
Buxar	841	200	112.75	111.20
Bhojpur	1837	310	371.54	168.39
Jehanabad	1079	260	140.00	133.75
Munger	1511	356	191.92	165.46
Aurangabad	1133	222	215.20	150.95
Gaya	3013	111	197.27	168.23
Nawada	2353	266	230.91	169.10
Jamui	3585	305	688.50	327.69
Banka	1763	448	103.34	74.46
Bhagalpur	8590		311.10	262.00
Katihar	4385	301	241.28	228.91
Purnea	1775	194	257.23	207.28
Rohtas	653	323	282.50	141.25
Kishanganj	3442	75	253.98	160.90
Araria	2127	830	484.07	206.05
Madhubani	11577	564	593.74	555.60
Sitamarhi	3248	49	436.99	194.03
Muzaffarpur	13246	2149	568.08	458.56
Kaimur	1043	300	109.70	63.45
Vaishali	2097	595	317.79	171.90
Patna	6494	456	452.90	592.25
Nalanda	2758	236	347.53	213.37
Samastipur	3455	406	543.28	491.11
Darbhanga	5151	580	651.00	553.24
Saharsa	2073	782	368.49	266.51
Khagaria	1055	250	477.50	238.75
Begusarai	2326	369	310.23	212.28
Lakhisarai	803	0	84.85	55.03
Sekhpura	755	117	131.08	42.95
Total	108534	14036	12393.38	8367.92
Source: SLBC, Bihar.				



SGSY aims at providing sustainable income to the rural poor and establishing a large number of micro-enterprises in the rural areas. DRDA has promoted nearly 131913 women SHGs by June 2008 (Table 4). Most of the SGSY groups are formed with BPL members with a membership of 10 which are considered as high risk groups. DRDA promotes SHGs by providing Rs 3000 for formation of an SHG and opening of a bank account. It also provides loans to SHGs to the tune of Rs 3.0 lakh for taking up income generation activities.

### **Poorest Areas Civil Society (PACS)**

PACS is a DFID funded project initiated in 2002. The first phase of the project ended in April 2008 and the second phase is expected to start in 2009. Development Alternatives is the implementing agency of the program in Bihar. PACS was initiated to address the root causes of deprivation rather than the symptoms. The project aims to improve the lives of tribes and backward classes by forming SHGs and encouraging thrift, micro enterprises and credit programs. The key issues addressed are governance, livelihood, empowerment of marginalised sections, and relief in case of floods and drought. Strengthening of NGOs, called civil society organisations (CSOs), for creating people's organization is identified as the most effective strategy for the address of the social and economic ailments of Bihar. PACS was encouraged to work more in the areas where government programs were not successful. In Bihar, PACS is running in 2940 villages of 117 blocks across 24 districts through 41 grass root civil society organizations, some of them with smaller network partners. These villages are spread over the flood prone region of Kosi-Bhagmati belt to the drought prone region of Gaya- Nawada and other poorest districts of Bihar. PACS formed 4500 women based SHGs with over 62000 members. These SHGs have total savings of over Rs 1.0 crore. This acts as a strong base for implementing any poverty alleviation program in Bihar. Some of the groups were partnered with NABARD as well. Apex bodies of SHGs, called Mahila Adhikar Morcha, were also formed but not very successful in functioning and the bank-linkages have been very slow. Overall, it has been felt that the IGP approach has not worked and an actual livelihood analysis is missing. However, PACS are said to be successful in political empowerment.

### **Bihar Women Development Corporation (WDC)**

Bihar Women Development Corporation (WDC) is a society that was set up on the initiative of the central government in 1991. It works closely with the Department of Welfare, Government of Bihar and acts as a nodal agency for implementing women development programs in Bihar. WDC seeks to work especially for the cause of rural women to empower them. To achieve this, it has partnered with NGOs working at grass root level and has been implementing different projects through SHGs. WDC mainly focuses on organizing and nurturing SHGs, promoting literacy among women, building capacities through training programs, promoting entrepreneurship among women, undertaking marketing and production activities, and promoting federations which can do financial intermediation and meet the capital needs of SHG's for undertaking livelihood activities. WDC is covering 534 blocks in 22 districts.

Despite various constraints, it has plans to expand the program to 38 districts in a phased manner. Important state/central government projects that are implemented by WDC are Swa-Shakthi, Swayamsiddha, Swawalamban, Mukhyamantri Nari Shakthi Yojna (MNSY), Deep and an Urban Slum project. Under these projects, WDC has promoted 10825 SHGs. It has built credit linkages of SHGs with banks, and disbursed nearly Rs 3.46 crore as loans with an average of Rs 30800 per SHG. A new program called Mukhyamantri Narishakti Yojna has been started in the state through WDC, which is the phase 2 of the Swayamsiddha project and comprise all the positive aspects of Indira Mahila Yojana, Swashakthi and Swayamsiddha projects. Under the program, women's SHGs are to be formed on a saturation mode in selected blocks where WDC has already intervened. The main objective of the program is to empower the women through

institution building, micro finance and livelihood interventions. These SHGs would comprise of only BPL women. The project period is to be 8 years beginning from 2008. WDC is face criticism as it monitors and reviews more at NGO level than the community level.

### **Bihar Rural Livelihood Project Society (BRLPS)**

The Government of Bihar, with the support from World Bank, initiated the Bihar Rural Livelihoods Promotion Society (BRLPS), called Jeevika in 2006. BRLPS aims to improve rural livelihood options and works towards social and economic empowerment of the rural poor and women. The objectives of the project include the development of organizations for the rural poor and producers to enable them to access and negotiate better services, credit and assets from public and private sector agencies and financial institutions. The project invests in building capacity of public and private service providers and plays a catalytic role in promoting the development of the micro finance and agribusiness sectors. The project is targeted to promote 40000 SHGs and 4000 SHG federations at village/cluster/area level over a period of five years. The project is operational in 102 blocks of 6 districts viz., Muzaffarpur, Nalanda, Khagaria, Gaya, Purnia and Madhubani. BRLPS is taking technical support from Indira Kranthi Patham of Andhra Pradesh. The model being followed by BRLPS is similar to that promoted in Andhra Pradesh, a three tier model of SHG federation, i.e., SHGs at habitation level, secondary institutions such as village organizations at cluster or area level and tertiary institutions at block level. It has adopted an approach that can help SHGs take up social mobilization, credit mobilization and techno linkage activities. BRLPS adopted the strategy of strengthening the capacities of existing and new SHGs through Community Resource Persons and Best Practices Promotion.

### **Bank Linkage of SHGs**

One of the most successful programme supported in the micro finance sector has been SHGs-bank linkage program<sup>6</sup>. It was on RBI's arbitrated that banks started giving loans to SHGs. On RBI's advised banks removed all operational irritants and made arrangements to expedite and disburse micro credit by delegating adequate sanctioning powers to branch managers. Banks were advised to make the loan application forms, procedures and documents simple for a prompt and hassle-free micro credit. Banks are asked to make all out efforts to reduce the financial intermediation cost and disbursement lags. However, Bihar SHGs are at the bottom in case of both the parameters of formation and credit support by financing institutions among many states. The southern states like Andhra Pradesh alone accounted for 39 per cent of the total linkage. It has been in the forefront in the SHG movement. Even while excluding north-eastern region, where bank-linkage accounts for only around 5 per cent of the total program, the SHG linkage situation in Bihar is still very poor compared to other northern states (Table 5). The yearly growth in terms of linkage and linkage amount is shown in Table 6. It is shown that there is a positive trend in the year 2007-08. However, 9 per cent decrease in linkages is observed during 2005-06, which occurred due to SHG's poor repayment of previous loans because of floods and resulting crop loss during the year. During 1993 on RBI's initiative, banks in Bihar began considering provision of loans to SHGs for the first time with any guarantee. Bank of Maharashtra and Canara Bank were the two banks that brought out separate guidelines for SHGs. Since then under RBI and NABARD pressure various banks started opening accounts and lending loans to the groups. However, commercial banks and regional rural banks are the leaders in providing bank-linkage in Bihar. Today of the 33 commercial banks in Bihar, 15 are involved in the SHG-linkage program. Of course State Bank of India as lead bank in the state is an active participant. 2007-08 saw a significant improvement in bank-linkage. If one goes by SLBC data, the number of SHGs linked during 2007-08 was 49738. The linkage amount stood at Rs 240.99 crore. Despite these efforts, in Bihar, SHG- bank linkage is very poor. The amount disbursed is relatively small compared to other states/regions. One must say that cumulative bank loan per SHG is the lowest compared to other states.



**Table 5: Growth of SHG Bank Linkage**

States	2005	2006	2007	2008	Rank in 2008
Maharashtra	71146	131470	225856	326425	1
Rajasthan	60006	98171	137837	173192	5
Uttar Pradesh	119648	161911	198587	236929	3
West Bengal	92689	136251	181563	228395	4
Orissa	123256	180896	234451	307591	2
Madhya Pradesh	45105	57125	70912	83336	7
Bihar	28015	46221	72638	92008	6
India	1618456	2238565	2924973	Na	

Source: State Level Bankers Committee (slbc.bih.nic.in) and NABRD State Focus Paper.

Table 6 shows overall progress of SHG- bank linkage by March end 2008. In Bihar total number of SHGs having saving accounts with bank stood at 95869, just 1.91 per cent of national figure. The share of commercial banks and regional rural banks in this process is not much different. In case of bank loans disbursed during 2007-08, the share of Bihar in loans disbursed is meagre 1.56 per cent for a share in SHGs of 1.48 per cent. Regional rural banks have higher share in SHGs share (3.11%) compared to commercial banks (1.1%) while the share in loan amount is 2.67 per cent for regional rural banks and 1.25 per cent for commercial banks. It is interesting that in Bihar though commercial banks have more SHGs linked they have relatively poor performance compared to regional rural banks in terms of provisioning of loans. The average savings of SHGs with banks is Rs 4760; commercial banks Rs 4271 lower than regional banks Rs 5581 (Table 7). The average bank loan disbursed during 2007-08 is Rs.76361 per SHG. Here commercial banks have disbursed higher average bank loan compared to regional rural banks. Also, the amount in saving accounts of SHGs with banks at the national level is higher across type of banks, but per SHG bank loan is higher in Bihar compared to national average for commercial banks and lower for Regional Rural Banks; average is higher in Bihar though at Rs 76361 compared to India at Rs 72076.

**Table 6: Credit Linkage Status of SHGs in Bihar**

Years	Linkage of new groups during the years	Cumulative number of SHGs credit linked	Linkage amount of new groups (Rs crore)	Cumulative (Rs crore)
2000-04	8085	16246	51.82	Na
2004-05	11769	28015	37.42	Na
2005-06	18206	46221	31.20	1052.19
2006-07	26517	72638	82.54	2334.07
2007-08	49738	92008	240.99	Na

Source: State Level Bankers Committee (slbc.bih.nic.in) and NABRD State Focus Paper.

**Table 7: Progress of SHG-Bank Linkage (31 March 2008)**

Items	SHGs	India Amount (Rs lakh)	Average amount Rs	SHGs	Bihar Amount (Rs lakh)	Average amount Rs
Savings Accounts of SHGs with Banks	5009794	378538.94	7556	95869	4562.89	4760
Commercial Banks	2810750	207773.45	7392	60136	2568.61	4271
Regional Rural Banks	1386838	116648.83	8411	35733	1994.28	5581
Cooperative Banks	812206	54116.67	6663			
Bank loans disbursed during 2007-08	1227770	884926.24	72076	18116	13833.64	76361
Commercial Banks	735119	540390.35	73511	7919	6739.99	85112
Regional Rural Banks	327650	265184.14	80935	10197	7093.65	69566
Cooperative Banks	165001	79351.75	48092			
Source: www.nabard.org.						

As regards the district level situation, table 8 shows that up to March 2007, 72339 SHGs were bank linked and two districts viz., West Champaran and Gaya accounted for 30.4 per cent of all bank linked SHGs and five districts (Nawada, Muzaffarpur, Patna, West Champaran and Gaya) accounted for 47 per cent of all SHG- bank links. The during 2006-07 situation is West Champaran and Gaya accounted for 22.63 per cent of all bank linked SHGs and five districts (Nawada, Aurangabad, Patna, West Champaran and Gaya) accounted for 40.45 per cent of all SHG- bank links. At the bottom is Shekpura. The jump in bank linkage occurred in 2007 as shown from the table when 36.1 per cent SHGs were bank linked of the total. On the quality of SHGs the figure below shows that 51 per cent NGO-SPHIs are grade B while 29 per cent are grade A and 20 grade C. About 6.22 per cent are defunct, which is a low percentage.

## **BANKS' ROLE IN PROMOTION OF SHGS AND LINKAGE**

Commercial Banks and Regional Rural Banks are the major providers of the bank-linkage in Bihar. A few banks have also themselves taken up the role of an SHPI particularly in areas where the NGO presence is minimal. In other words, they play a dual role of SHPI as well as credit supplier. NABARD has set guidelines for banks for selecting self-help groups for linkage. These include:

- The group should have been in active existence for at least a period of 6 months.
- The group should have been successfully undertaking savings and credit operations from its own resources.
- Democratic working of the group wherein all members feel that they have a say, should be evident.
- The group is maintaining proper accounts and records.
- The bankers should be convinced that the group has not come into existence only for the sake of participation in the project and availing themselves of benefits there under.
- There should be a genuine need to help each other and work together among the members.
- The SHG members should preferably have homogenous backgrounds and interests.

**Table 8: District-wise SHG-Bank Linkage up to March 2007**

District	SHGs credit Linked 2006-07	Cumulative linkage up to 2007	Share in Total	
			of 2	of 3
1	2	3	4	5
Siwan	124	225	0.47	0.31
Saran	468	1786	1.79	2.47
Sheohar	30	155	0.11	0.21
Supaul	535	1404	2.05	1.94
Madhepura	138	344	0.53	0.48
West Champaran	2575	11936	9.86	16.50
East Champaran	1242	3492	4.76	4.83
Gopalganj	348	760	1.33	1.05
Arwal	582	993	2.23	1.37
Buxar	316	566	1.21	0.78
Bhojpur	750	1216	2.87	1.68
Jehanabad	591	1380	2.26	1.91
Munger	602	1105	2.30	1.53
Aurangabad	1456	2335	5.57	3.23
Gaya	3335	10055	12.77	13.90
Nawada	1910	3901	7.31	5.39
Jamui	819	1781	3.14	2.46
Banka	120	598	0.46	0.83
Bhagalpur	648	2616	2.48	3.62
Katihar	344	965	1.32	1.33
Purnea	866	2002	3.32	2.77
Rohtas	1002	1528	3.84	2.11
Kishanganj	475	798	1.82	1.10
Araria	294	680	1.13	0.94
Madhubani	472	1800	1.81	2.47
Sitamarhi	383	1199	1.47	1.66
Muzaffarpur	686	4162	2.63	5.75
Kaimur	268	368	1.03	0.51
Vaishali	566	1435	2.17	1.98
Patna	1291	3947	4.94	5.46
Nalanda	600	1547	2.30	2.14
Samastipur	586	1795	2.24	2.48
Darbhanga	719	1444	2.75	2.00
Saharsa	317	714	1.21	0.99
Khagaria	145	274	0.56	0.38
Begusarai	250	550	0.96	0.76
Lakhisarai	197	342	0.75	0.47
Sekhpura	68	141	0.26	0.19
Total	26118	72339	100	100

Source: NABARD (www. nabard.org).

## **SHG Ratings**

NABARD started its refinance support to banks for financing SHGs under the SHG-Bank Linkage Programme in 2001. The credit is offered for both farm and non-farm activities that are technically feasible and financially viable. Micro-entrepreneurial activities are especially encouraged to help women to enhance their livelihood status. As per NABARD State Focus Paper 2008-09, the number of SHGs credit linked as on 31st March 2007 was 72339 SHGs (cumulative) and the amount received was Rs 37 crore, at an average of Rs 5000 per group. During 2007-08, NABARD Bihar has released a total grant support of Rs 44.68 lakh for promotion and up scaling of the SHG-Bank Linkage Programme and related activities in the state.

## **Commercial Banks**

SBI the lead bank of Bihar, in a way is one of the major SHG promoting banks in the state. It not only is encouraging other banks to improve their network, but also partnering with the state government for the implementation of projects like BRLPS. Other nationalized banks also showed good interest in the promotion of SHGs in the state. For example, Punjab National Bank offered Civil Society Organisations Rs 1000 for forming each SHG that will be linked to the bank later on. SBI, Bank of Maharashtra, Canara Bank and private banks like ICICI have also provided credit-linkage to SHGs. While most of the banks provided direct credit linkage to SHGs, ICICI and HDFC chose to give bulk amounts to NGOs for on lending to SHGs.

SIDBI also launched a special unit called SIDBI Foundation for Micro Credit (SFMC) in January 1999 for channelizing funds to the poor. SFMC is the apex wholesaler for micro finance providing a range of financial and non-financial services such as loan funds, grant support, equity and institution building support to the retailing MFIs so as to facilitate their development into financially sustainable entities. MFIs may on lend directly to SHGs/ individuals or root their assistance through their partner NGOs and MFIs. They may also adopt any other lending channel so as to effectively provide financial assistance to the poor clients to meet their requirements<sup>7</sup>. SFMC provides need based annual assistance to MFIs. SFMC's capacity building efforts are directed not only towards MFIs but also towards smaller/grass root institutions engaged in micro finance operations, training, consultancy, rating and impact assessment, etc. and other service providers in the form of training, seminars, workshops, orientation and exposure visits. SFMC is also playing a significant role in advocating appropriate policies and regulations and to act as a platform for exchange of information across the sector.

## **Regional Rural Banks**

Regional Rural Banks (RRBs) serve specifically rural needs and Bihar has good network of RRBs. Along with commercial banks, RRBs with the assistance of NABARD are the major providers of the SHG bank-linkage in Bihar. But many of them are found to be loss making. Main reasons are poor repayment rate. Till March 2008, RRBs have provided credit linkage to 10197 SHGs with an amount of Rs 70.94 crore (Table 9).

**Table 9: Regional Rural Banks and SHGs**

RRB	Year of Sanction	Districts Covered	SHGs to Promoted	Grant Sanctioned	Grant released	No. of SHGs	
						promoted	Linked
Madhubani KGB	2000	Madhubani	300	1.55	0.53	152	102
Saran KGB	2002	Saran	130	1.32	0.00	65	2
Champanan GB	2002	East & West Champaran	500	4.80	0.00	30	30
Magadh GB	2000	Gaya	300	1.55	0.00	74	16
Bhojpur		Bhojpur, Rohtas,					
Rohtas GB	2002	Buxar & Kaimur	150	1.50	0.00	288	150
Bhagalpur							
Banka GB	2002	Bhagalpur, Banka	300	2.70	0.13	0	0
		Munger, Khagaria,					
		Jamui, Sheikhpura					
Munger KGB	2004	Lakhisarai	270	2.70	0.00	0	0
		Total	1950	16.12	0.66	609	300

Source: SLBC Bihar.

### Private Banks

Private Banks like HDFC, ICICI, etc. are also in business of micro finance. HDFC is the only private commercial bank which is providing saving facility for SHGs in Bihar, though has not given any credit linkage to SHGs thus far. ICICI, though not in the promotion of SHGs directly, is providing bank linkage access to the SHGs. SHGs can open their savings account and also can obtain credit from ICICI. SHGs can open savings accounts with a minimum balance of Rs 1000 without any annual fees. If the minimum balance is not maintained, the group is charged an additional amount of Rs 100 per quarter. At the time of account opening, groups are required to provide a letter of identification from their promoting agency and a group resolution. Opening a savings account is not compulsory for taking a loan. ICICI allows SHG to obtain a loan up to Rs 2.00 lakh for minimum 6 months to maximum loan tenure of 24 months with a principal moratorium of 3 months. Loan are provided as per the credit need and not limited to savings multiple for any purpose. In all the processes- from facilitating the linkage and recommending loan to loan repayments- SHPIs play a very crucial role. There are penalties for late payment of dues. Facilitating NGO receives a fee up to 1.5 per cent of the total loan repayment on successful loan completion for services rendered irrespective of number of SHGs credit linked. The major problem with ICICI is that it takes 15 per cent of the loan as security deposit. Though the products offered are good, the interest rate is also high compared to other banks. Though Bihar is given top priority by ICICI, it has not put serious efforts in extending its support in the state. Major reason cited by bank authorities for not investing in Bihar is the governance in the state. However, from 2008 fiscal year onwards ICICI is trying to network with 1015 partners, preferably NGOs and build a portfolio of Rs 100-150 crore.

Although a substantial number of SHGs is promoted by various agencies in Bihar, not all eligible SHGs have been bank linked. For example, out of 10877 WDC promoted SHGs 9439 are savings linked, but only 2990 are credit linked. The linkages are mostly concentrated in the districts West Champaran and Gaya. The districts of Kaimur, Sheikhpura and Lekhisera have fewer linkages.

## **FUTURE POTENTIAL**

The population of Bihar is approximately 9.29 crore in 2008<sup>8</sup>. The total number of household under below poverty line is 76.7 lakh. There are about 1.859 crore households<sup>9</sup> of which 1.665 crore are rural households (89.54% of total population) and 19.4 lakh urban households (10.46% of total population). Further, the number of rural BPL households is estimated to be 70 lakh (42.1% of rural population)<sup>10</sup> and 6.73 lakh urban BPL households (34.6% of urban population)<sup>11</sup>. The outreach of micro credit in Bihar is as low as 18.7 per cent. Approximately 81.3 per cent of the rural population has no access to credit<sup>12</sup>.

The number of credit linked SHGs in Bihar are 92008 (NABARD data) and given the BPL number of households in Bihar as 76.7 lakh in 2008 we can say that 15.61 per cent BPL households are members of SHG (assuming all SHG members and MFI clients are BPL). Over all 1196104 households have been covered (13 members/ household per SHG). Further, Sa-Dhan<sup>13</sup> provides an estimate of number of clients/ households covered by MFIs in Bihar to be 236343 (assuming one client per household). This means that percentage of BPL households as MFI Clients constitute around 3.1 per cent and percentage of poor households covered by Micro finance in Bihar is 18.7 per cent. As per the calculation, the total demand of micro credit in Bihar is Rs 4867.5 crore while the current supply is Rs 212.8 crore. Thus, the demand supply gap is around 96 per cent.

The Governments' focus on political empowerment of certain sections of the community could not help much for the poverty alleviation and the overall development of the state. The present the attempt is to take several development initiatives along with administrative and policy reforms opened doors for various developmental agencies and also the investors to enter the state. The Ministry of Rural Development is also making efforts to achieve universal propagation of self- help groups by covering at least one member of all rural BPL household by the end of 11th Five Year Plan. This growing interest in the SHG movement is opening new scopes for various SHPIs to gain momentum. If we assume the average size of existing SHGs being 12, the number of households covered is far from the expectation. Till recently, most of the promoting agencies' focus was more on SC and ST categories, who account only for 16.64 percent of the total population. It is sad to know that in the present 1.37 crore households, not even 25 lakh households are covered by SHGs. The Bihar population growth is also giving scope for a longer life of the SHG movement. The state recorded a decadal growth rate of 28.43 percent during 1991-2001. According to GoI population projections, Bihar population increases to 12.13 crore by 2011 and 13.23 crore by 2016. Another important point which is giving the scope for a longer sustainability of the SHG movement is the productive age group of the people. Almost 58 per cent of present Bihar Population is below 25 years of age, which is the highest rate in India.

There are different estimations on the potential for formation of SHGs in the State. In the workshop on Institution Development for Livelihoods, participants felt that there is a potential for forming 10 lakh SHGs in Bihar in next 10 years. During the study, the NGOs in their profiles mentioned a potential of forming SHGs two to four times the present number in the next one year itself. NABARD estimates a possibility of forming 6.25 lakh SHGs in the coming 10 years and set a target of linking 50,000 SHGs during the current year (2008-09). The number of organizations involved in SHG promotion is increasing in a very rapid pace. This not only includes existing NGOs in the State, but also newer NGOs with lot of experience in SHG promotion are entering the State. Finally, it is worthwhile to state that the changing environment is giving positive indications for the growth of SHG movement in the state.



## CONCLUSIONS

Bihar has the potential to get about a million self-help groups (SHGs) engaged in real productive activities in the next few years. The objective can be achieved if a synergy between state-level working group and action plan is developed. Three agencies rural development department, Jeevika Project and BSWDC are engaged in SHG formation under their separate book keeping method, processes and action plan. New approach would require one process, similar bookkeeping method and a common action plan so that the SHGs of the three agencies are able to work together in tandem with banks, which give loans to the SHGs to make their activities a massive social movement. At present, as per NABARD, the Bihar has 250000 SHGs of which 92008 SHGs are bank linked. They have been provided with bank loans worth Rs 240.99 crore. However, if the desired target of 10 lakh SHGs is to be met, then the micro loans worth Rs 10000 crore and productive loans of Rs 1000 crore have to be made available to them for income enhancement of women and BPL families involved.

SHGs suffer teething problems initially, so much so that banks are unwilling to open accounts even. Bihar had a huge potential, but scaling up of bank linkages and increased SHG activities would require a large force of trainers. Besides, there has to be common training approach, common book keeping approach, and common rating system. Bihar have shown that only after an SHG member has taken up efficient productive activities through loans worth Rs 1 to 2 lakh is she able to break the poverty trap (Microfinance India, July 21, 2009). There is no doubt that there are many problems with SHGs in Bihar. For instance, discontinuity of projects/programs and target driven and subsidy- oriented approach of government are some of the challenges NGOs are facing in the field of SHG/federation promotion. Also the shift of NGOs into MFIs is leading to a shift in SHG model to JLG model. Many NGOs too are not able to mobilize funds from external agencies for their institutional and capacity building costs. This is making them look towards MFI approach as revenue generator, and JLG model as a convenient model for the recoveries. There is need for process- orientation, costs involved in education and capacity building of SHGs, time to be invested for follow up and monitoring are also becoming severe constraints in the promotion of SHGs. Irrespective of the measures taken by NABARD and SLBC, the attitude of bankers towards SHGs is not very encouraging. Lack of technical expertise in the sector and poor presence of technical support agencies is a great barrier for Bihar SHG movement to take a proper direction. There is of course, some strength in SHGs in Bihar. The environment in the state shows some positive indicators for the SHG movement and its growth. The number of agencies involved in the promotion of SHGs is also growing. Government, banks and NGOs are proactive in this. NGOs, having good rapport and direct interaction with communities, always took a pro-active role in the promotion of SHGs. Remoteness of the areas; infrastructure has not become a constraint for NGOs to establish and to form SHGs. SHGs are not limited to financial intermediation, but social agenda is also being dealt with. Because of the positive environment in the state, many successful organizations working in other parts of the country are showing interest to work in the state. Major promoters are taking steps to increase the base of SHPIs and change the attitudes of bankers towards SHG-Bank linkage. The need for NGOs to take up the work with the provisioning of promotional and operational costs is recognized by major promoters. Importance of technical agencies for institutional strengthening and capacity building is recognized all over the state. However, natural calamities, Migration due to unemployment, etc. are leading to discontinuity in groups. Social and political situation at the local levels are discouraging.

## Notes

1. Examples are Myrada in Karnataka, which has promoted Sanghmitra, a company of its village saving and credit sanghas, PRADAN which has established a large number of SHGs and federated them under Damodar in Bihar, Sakhi Samiti in Rajasthan.
2. Examples in this category are Rashtriya Gramin Vikas Nidhi (RGVN), which runs credit and savings programme in Assam and Orissa on the lines of Grameen Bank, Bangladesh. Also we have SHARE in Andhra Pradesh, ASA in Tamil Nadu under this category. There are MFIs which are specifically organized as cooperatives, such as over 500 Mutually Aided Cooperative Thrift and Credit Societies (MACTS) in Andhra Pradesh, promoted among others by Cooperative Development Foundation (CDF) and the SEWA Bank in Gujarat which also runs federations of SHGs in nine districts. Then we have MFIs, which are organized as Non-Banking Finance Companies (NBFC) such as BASIX, CFTS Mirzapur, SHARE Microfin Ltd and Sarvodaya Nanofinance Ltd.
3. The World Bank (2005) *Bihar: Towards a Development Strategy*, The World Bank.
4. Poverty Estimates for 2004-05, Press Information Bureau, GoI, 2007.
5. For example, 24% of the Thrift and Credit Groups promoted by Mahila Samakya (914 out of 3789 SHGs) received support from SGSY and NABARD. So, this number is likely to have been quoted by both, SGSY and NABARD.
6. NABARD guidelines for financing of SHG Federations include: The SHG Federation should evolve as per the need of the SHGs wherein each SHG is free to join/not join the Federation; The promoting organization to ensure that the Federation is able to sustain its functioning and becomes self-managed over a period of 3 years; The Federations should be member-owned, member-driven institutions and democratic in its functioning; The SHG Federations may act as business facilitator/ business correspondent to the banks. Support for SHG federations should clearly establish value additions to the SHG functioning.
7. RGVN is one of the major organizations which received funds from SIDBI and in turn lent to its partner NGOs. NGOs generally use this amount as revolving fund and on lend to SHGs and JLGs. SIDBI also financed NGOs/MFIs like CDOT, TMS, etc. In Bihar, SIDBI hasn't given any direct lending to SHGs so far, though planning to do so.
8. Assumed annual growth rate of 1.63% p.a. during 2001-08 as per national average for India 1991-2001, All India census data 2001.
9. Assuming five persons per household
10. Rural poverty ratio in rural Bihar is 42.1% for 2004-05 (Source: CSO, NSSO Survey Reports).
11. Rural poverty ratio in urban Bihar is 34.6% for 2004-05 (Source: CSO, NSSO Survey Reports).
12. <http://microfinancenewz.blogspot.com/2008/12/report-on-microfinance-initiatives-in.html>.
13. SADHAN, The Microfinance Quick Report, 2008.