Problems of Microfinance in the Poverty Eradication in Bihar

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Abstract
Most of the areas in Bihar suffer from either flood or drought, which means the risk element in their basic livelihood, is quite high. No doubt, microfinance programme has shown impressive achievements, but a number of questions arise: Did this programme reach the underprivileged? Whether everyone in need of microfinance intervention had been reached by any of the agencies? Even if everyone had been reached, did they get the required quantum of assistance to have sustainability? These questions are still very inconvenient to be answered because there are certain problems associated with this programme.

Key Words: Poverty, Eradication, SHG, MFI, NGO etc.

INTRODUCTION

The uniqueness of the micro finance through SHG is a partnership based approach which encouraged NGOs to undertake not only social engineering but also financial intermediation especially in areas where banking network was not satisfactory. Relationship building and need based funding are the uniqueness of MFIs[1-5]. The rapid progress achieved in SHG formation, which has now turned into an empowerment movement for women across the country, laid the foundation for emergence of MFIs in India. Microfinance has been an accepted idea for now over two decades as a pathway to emerge out of poverty. In India too, microfinance (beginning with microcredit) took roots around 17 years ago with the linkage-banking program started by NABARD in 1992. Through the SHG-bank linkage program, a mechanism of the poor getting very small loans was unveiled

. The condition of the state deteriorated in different development indices after the bifurcation of the state in 2000. While it retained 75% of the total population of undivided Bihar, it was left with only 54% of the land. This has led to a lot of strain on the existing resources. Most of the areas in Bihar suffer from either flood or drought, which means the risk element in their basic livelihood, is quite high. There are following problems are facing by Microfinance in north Bihar

- No. of BPL person is too high
- Regional disparity among the districts of north Bihar.
- Limited no. SHG and NGO in the districts of north Bihar
- Lack of microfinance institution in north Bihar
- High interest rate
- Low depth of out rich
- Un-regulated microfinance institution
- Lack of commercial banking and insurance services
- Binding of saving

Problems Faced By Microfinance Institutions (mFIs) And Possible Remedies

Major problems faced by microfinance institutions were adequate and timely availability of getting funds for lending, management of Funds, remittance of funds, developing suitable MIS, legal problems, rating related issues, problems in mobilizing equity support, creating awareness, formation of SHGs/JLGs, Financing of SHGs/JLGs, Capacity building of SHGs/JLGs, graduating to micro enterprises, and introducing standard systems & procedures including MIS.

1. Sources of funds: Most (80%) of the MFIs responded that availability of adequate fund was the major problem. They required adequate fund to enlarge their activities and increasing loan amount per borrower to help them in graduating to micro enterprises..
2. Management of Funds: Most of the miss stated that management of fund was not a problem for them. However, some of the miss were facing problem in fund planning. Some times in order to increase their outstanding, funding agency dump their funds at the end of financial year. Better fund planning was required and possible help from various support agencies was required.
3. Developing suitable MIS: Majority of miss were maintaining their MIS in excel sheets or MIS software provided by other organizations. Some miss had developed their own software. Thus there was no uniformity either in software use or in various return/statements. The cost of MIS software was very high and not affordable by small miss. Power cuts hamper computerization work. Alternative arrangement of supply of power was required which increased the cost of

miss. The respondent officials of NABARD/ SIDBI stated that the miss did not maintain proper MIS and data lacked authenticity.

4. Legal problems: Because most of the miss were working as society, trust and section 25 companies, they were not legally allowed to accept the public deposit. There was no uniform legal structure for miss. It hampered miss to raise the funds and attract investors. Moreover, not for profit miss could not draw equity from investors. This problem prohibited them in getting equity and finally their capital adequacy was affected. Realization of default from borrowers was a bit too arduous and expensive and yet not unfailing. There is no applicable law, as the Micro Finance Bill is yet to be enacted. For sorting out legal problems all bank officials including NABARD /SIDBI were unanimous that setting up of an independent regulatory authority is the crying need of the hour and the government of India must act to address this issue without any delay.
5. Rating related issues: Rating was done only on the financial parameters. Social and other indicators were not taken into consideration. Rating norms were generally high and was suitable for Non Banking Finance Companies (NBFCs) only. There were no separate rating norms for society and trust.
6. Problems in mobilizing equity support: Not for profit miss were mainly experiencing this problem of mobilizing equity support. It was opined by NABARD/ SIDBI officials that not for profit miss may be provided more equity support from MFDEF maintained at NABARD level. Equity funds may also be created at various banks level and the assistance from fund may be treated as “priority sector advances”.
7. Problem in Creating Awareness: Awareness creation cost was very high. miss were not able to raise fund for awareness creation out of their profits. They required support from funding agencies/apex development institutions for awareness creation and financial literacy. The respondents were of the

views that cost of awareness creation and financial literacy may be reimbursed to the miss as grant by NABARD/ SIDBI.

8. Formation of SHGs/JLGs: Formation cost for SHG/JLG was too high for miss. They were not getting any support for this purpose from any agencies. The respondent officials of NABARD/SIDBI stated that in order to have quality groups, capacity building of miss was very much required and NABARD/ SIDBI should come forward to help miss in awareness creation.
9. Problem in Capacity building of SHGs/JLGs: Capacity building curriculum for miss was not standardized. There were only few organization/training establishment providing capacity building/training to miss staff. Trained instructors in the field were not available. The cost of capacity building was high, which most of the miss could not afford. The respondents suggested that the capacity building cost of SHG/ JLG may be provided by NABARD/ SIDBI.
10. Graduating to micro enterprises: Micro enterprise development program was not organized regularly by miss. Training and capacity building was required to update self help groups to graduate them into microenterprises. Marketing of the product was the biggest problem for micro entrepreneur that hampered the scope of SHGs in graduating to Micro Enterprises.
11. Introducing standard systems & procedure: Small mFIs were facing problem of standardizing of system and procedure. The system and procedure of various mFIs were different. Uniform manual for system and procedure viz. account and auditing etc were required.

Future Challenge plan for Bihar Challenges:-

Regional Imbalances – The first challenge is the skewed distribution of SHGs across States [6-10]. About 60% of the total SHG credit linkages in the country are concentrated in the Southern States. However, in States which have a larger share of the poor, the coverage is comparatively low. The skewed distribution is attributed to

- The overzealous support extended by some the State

Governments to the programme.

- Skewed distribution of NGOs and
- Local cultures & practices.

The NABARD has since identified 13 states where the volumes of SHGs linked are low and has already initiated steps to correct the imbalance.

From credit to enterprise

The second challenge is that having formed SHGs and having linked them to banks, how can they be induced to graduate into matured levels of enterprise, how they be induced to factor in livelihood diversification, how can they increase their access to the supply chain, linkages to the capital market and to appropriate/ production and processing technologies A spin off of this challenge is how to address the investment capital requirements of matured SHGs, which have met their consumption needs and are now on the threshold of taking off into “Enterprise”.

Quality of SHGs – The third challenge is how to ensure the quality of SHGs in an environment of exponential growth. Due to the fast growth of the SHG Bank Linkage Program, the quality of SHGs has come under stress. This is reflected particularly in indicators such as the poor maintenance of books and accounts etc. The deterioration in the quality of SHGs is explained by a variety of factors including

- The intrusive involvement of government departments in promoting groups,
- Inadequate long-term incentives to NGOs for nurturing them on a sustainable basis and
- Diminishing skill sets on part of the SHG members in managing their groups.

In my assessment, significant financial investment and technical support is required for meeting this challenge.

Impact of SGSY – Imitation is the best form of flattery – but not always. The success of the programme has motivated the Government to borrow its design features and incorporate them in their poverty alleviation programme. This is certainly welcome but for the fact that the Government’s Programme (SGSY) has an inbuilt subsidy element which tends to attract linkage group members and cause migration generally for the wrong reasons.

Role of State Governments – A derivative of the above is perhaps the need to extend the above debate to understanding and defining the role of the State Governments vis-à-vis the linkage programme. Let’s be clear: on the one hand, the programme would not have achieved its outreach and scale, but for the proactive involvement of the State Governments; on the other hand, many State Governments have been overzealous to achieve scale and access without a critical assessment of the manpower and skill sets available with them for forming, and nurturing groups and handholding and maintaining them over time[11-14].

Summary OF B.P.L CARD HOLDER IN MUZAFFARPUR

S.No	Name of Block	Name of village	Population	No. of person	Gen	SC	ST	OBC
01	Aurai	Paramjivar	5725	100	30	20	25	25
02	Bochaha	Narma	10239	200	95	25	50	30
03	Marwan	Karja	7689	150	70	40	15	25
04	Minapur	Ghosaut	6102	140	60	30	22	28
05	Motipur	Rasulpur	7907	100	20	25	30	25
06	Muraul	Mohammadpur	3397	50	10	5	15	20
07	Gaighat	Jarang	10921	200	105	10	30	55
08	Kanti	Kabilpur	5092	75	20	10	10	35
09	Katara	Dhanaur North	6572	100	45	10	35	20
10	Kudhani	Turki	13024	225	150	20	25	30
11	Mushahari	Naurali	6731	100	45	10	20	15
12	Paroo	Jaffarpur	6589	100	40	20	20	20
13	Shebganj	Roop Chapra	6876	100	40	10	30	20
14	Sakara	Bariyarpur	5734	75	10	25	25	15
15	Sariya	Navada	6845	125	50	25	20	30

Analysis of collected data

The most important suggestion for development of leadership was exposure to different mFIs /financial institutions, training and capacity building and developing 2nd line of leadership in the organization from beginning.

- Due to lack of awareness and high cost, microfinance institutions in Muzaffarpur were not able to adopt the technology based delivery channels.
- Systems and procedures were not standardized and different mFIs followed different systems and procedures.

The mFIs were facing problems of getting funds, management of funds, remittance of funds, developing suitable MIS, legal problems, rating related issues, mobilizing equity support, creating awareness, formation of SHGs/JLGs, Financing of SHGs/JLGs, Capacity building of SHGs/JLGs, Graduating to micro enterprises, and introducing standard systems & procedures.

- Microfinance has helped the woman beneficiaries a lot in decision making.
- In majority of the cases (72.5%) the loan amount ranged between Rs.1000 to Rs.10000.
- The income level, social status, confidence level of the borrowers improved significantly after availing finance.
- For scaling up the activities of microfinance sector in muzaffarpur following suggestions were given by beneficiaries.
- 90% of beneficiaries were of the opinion that loan amount per beneficiary should be increased.
- 75 % beneficiaries suggested simplification of loan process. They are facing loan security demanded by banks.
- 27.5% beneficiaries suggested for improving repayment schedule by giving some gestation period and tagging repayment with income accruing period and making periodicity as monthly.
- 45% people having no idea about the usage of microfinance in poverty eradication, specialy people from the reserved category this percentage is above 60%.

Conclusions

Towards bringing 80% of the BPL population - from 18.62% at present - within microfinance fold. This will cover 6.55 million microfinance clients of which two-third will be supported SHG bank linkage program and one-third through emerging state and multi state MFIs with an estimated annual credit flow of Rs. 20,000 million by 2013. However, the task can be achieved given the positive energy of the State administration, institutionalizing capacity building institution and trust to provide credit flow for the emerging MFIs and SHPIs to achieve the vision by 2013. The vision also signals a fresh thrust in livelihoods promotion and the renewed interest of bankers in serving the poor not merely as a priority sector requirement but as a profit-generating clientele the catalytic presence of globally successful MFIs that have started operations in Bihar. It is expected that given the strengths of the wide range of organizations involved, a common purpose will be achieved that will lead to increased incomes and livelihoods opportunities for the poor and vulnerable population of Bihar.

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