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**Addressing to Issues of Regional Skew :
Microfinance Vision for the State of Bihar**

Microfinance India Summit 2008
November 12, 2008

III. MicroFinance India: Environment building

- Among the largest platforms for the mF sector in the world
- Helps to build consensus on issues and set a vision for the organized growth of the Sector
- Positioned as an International Summit on Indian Microfinance

State of the Sector Report – Microfinance: Over the years, the SOS Report has become established as among the most credible reference documents and is among the top 5 most downloaded documents in the Sector.

Policy Retreats: Across the year, ACCESS organizes a policy / thematic retreats, inviting thought leaders to delve on specific theme and make recommendations for consideration of policy makers

Asia Invest: ACCESS organises the Investment Fair to bring international private / social investors and facilitate their interface with potential MFIs. ACCESS organises Investment Readiness Workshops and helps in developing their pitch books and prepares them for negotiating with the investors

Building Vision for Underserved Regions: Each year, ACCESS identifies one state from among the underserved regions and engages with key stakeholders to develop a strategy, and a vision for giving momentum to the sector



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Citibank, Rabobank ...

Building State Vision for Microfinance

Why is this important ?

- Microfinance, especially microcredit has witnessed skewed geographic growth
- The demand for microfinance is huge and the present coverage of demand of just microcredit is estimated at anywhere between 10 to 15% only. The potential and challenge is therefore very daunting.
- Coverage of other services such as savings, insurance, remittance and social security measures are not significant at all.
- Institutions develop their microfinance agenda and action plans. However this does not necessarily result in collective strategies that would respond to the entire gamut of the demand.

ACCESS Initiative

- The focus on underserved states to develop a collective vision is the result of the deliberations and recommendations in the Microfinance India Summits over the years.
- Responding to the recommendations of the Summits, the advisory group has been undertaking the State Vision building exercise.
- ACCESS has in the past facilitated State Visioning on Microfinance for the States of Orissa, Rajasthan and Madhya Pradesh. This year the focus is on the State of Bihar.

Building State Vision for Microfinance : Design

Design

- Establish a baseline
- Gap analysis
- Roles and responsibilities
- Resource planning
- Goal setting
- Co-ordination and convergence
- Tracking mechanism

Building State Vision for Microfinance : Process

Process contours

Stock Taking; ACCESS will undertake mapping of the current status of the sector in the state through secondary information, consultations with stakeholders and field visits.

Organise consultation workshops, organize bilateral meetings, collating views and perceptions, understanding long term plans of various stakeholders.

Key stakeholders likely to be contacted / consulted will include:

Govt Officials of the concerned departments ;
Bankers/Financial Institutions; PRI Representatives;
NGOs/MFIs/SHPIs Fraternity; Microfinance support agencies;
CBOs/ Federations/SHG Leaders; Donors; Investors;
Academic/Research Institutions; Others

Assessing long term plans under various programmes in the State

Developing the state projections on the basis of demand & Supply potentials

Drawing up the draft Microfinance Vision Document

Sharing of the Document with the stakeholders and soliciting their feedback through consultative process

Presentation/sharing of the Document with all key stakeholders

Work with key stakeholders based on the recommendations



Microfinance in Bihar: Current Status and a Vision for the Future



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- Bihar: Socio-economic Profile
 - The Regional Skew in Microfinance: Bihar and India
 - Current outreach of financial services for the poor in Bihar
 - Estimate of demand for microcredit and the supply gap
 - Constraints to growth of microfinance in the State
 - Recent innovations in microfinance in Bihar
 - Towards a vision and strategic direction for microfinance in Bihar
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Bihar: Socio-economic and Banking profile

Socio-economic Profile	Bihar	India
Population	83 million	1029 million
Poverty ratio	42.56%	26%
Overall literacy rate	47.50%	65.20%
SC population	15.70%	16.20%
ST population	0.90%	8.20%
Avg. land holding	0.75 ha	1.57 ha
Human development index	0.367	0.472
Infrastructure development index	91.31	100

Source: Census of India 2001, HDR 2001

Bihar: Socio-economic and Banking profile (contd.)

Banking Network in Bihar*	Bihar	India
Total number of bank branches (Including RRBs and Co-operative Banks)	3735	73,836***
Bank branch per '000 population	25	16
Credit Deposit ratio	33.48 %	74.2 %#
Total number of new SHG Bank A/cs opened in 2007-08	6,873	NA
Total number of new SHG Bank credit linkages in 2007-08**	19,370	5,52,992
SHG savings with banks @	505.96 million (as on 31.3.2008)	35,127 million (as on 31.3.2007)
Total amount disbursed during 2007-08 under SHG-Bank linkage **	Rs. 1127.5mn	Rs. 42,275mn

*Source: 24th SLBC Review Meeting Report, 31st March 2008 ** Source: NABARD

@ SLBC meeting July 2008 and Microfinance State of the Sector Report 2008

*** Bihar Economic Survey 2006-07, Govt. of Bihar. # RBI press release on 18 July 2008.

The Regional Skew: Growth of SHG Bank Linkage in Selected States of India*

	2005	2006	2007	2008
Maharashtra	71,146	131,470	225,856	326,425
Rajasthan	60,006	98,171	137,837	173,192
U P	119,648	161,911	198,587	236,929
West Bengal	92,689	136,251	181,563	228,395
Orissa	123,256	180,896	234,451	307,591
M P	45,105	57,125	70,912	83,336
Bihar	28,015	46,221	72,638	92,008
India	1,618,456	2,238,565	2,924,973	5,52,992

*Cumulative No. of credit linked SHGs

The Regional Skew : Microfinance penetration in selected states of India

State	MPI *	MPPI **
Andhra Pradesh	3.03	5.27
Karnataka	2.15	2.27
Tamil Nadu	2.18	2.66
Kerala	1.29	2.36
Bihar	0.3	0.2
Haryana	0.13	0.26
Punjab	0.08	0.27

*The intensity of penetration of microfinance (MPI) was computed by the dividing the share of the state in microfinance clients by the share of the state in population.

**MPPI was derived by dividing the share of the state in microfinance clients by the share of the state in population of poor.

Current Status of Microfinance in Bihar: SHG-Bank Linkage Program

Institution	NABARD** (As on 31 st March 2008)	SGSY (As on 31 st March 2008)	WDC (as on July 08)	BRLP (As on 31 st March 2008)
Number of districts covered (total=38)	38	38	22	6
Total number of SHGs formed	---	98,233#	10,314	2,500 (approx.)
Total number of SHGs Credit-Linked	92,008	50,089**	4,423	NA

*Includes SGSY, WDC & BRLP SHGs groups also.

Total SHGs formed 108,534 less 10,301 defunct since inception. ** No. of SHGs passed Grade I

Current Status of Microfinance: MFI Outreach in Bihar

Name of the organization	Year of start of operations	Legal Status	Total no. of Districts	Number of Clients
SKS (Bihar)	2005	NBFC	33	84,444
Cashpor (Bihar)	1997	NBFC	4	70,621
ASSEFA (Bihar)	2005	NBFC	3	40,000
NIDAN	1996	Society	6	18,508
Gramin Jan Kalyan Parishad	2005	Society	1	12,062
Jan Jagaran Evam Punarwas Sansthan	2003	Society	2	3,070
Trust Microfin Services	1999	Trust	2	2,812
Nav Jagriti	2002	Society	2	2,250
Mass care International	2003	Society	5	1,200
CDOT	2007	Society	1	580
Batika	2007	Society	1	300
Boarddev	1999	Trust	2	296
Bihar Development Trust	2007	Trust	2	200
Estimated TOTAL				236,343

(Figures as on 31st March 2008)

Source: SA-DHAN, The Bharat Microfinance Report-Quick Data 2008 and MFI reports.

Potential Microfinance Clients

Estimate of No. of Poor Households in Bihar (2008)	
Population of Bihar in 2008*	92.90 million
Total no of Households**	18.59 million
Number of Rural Households (89.54% of total)	16.65 million
Number of Urban Households (10.46% of total)	1.94 million
Number of Rural BPL Households (42.1% of rural population)***	7 million
Number of Urban BPL Households (34.6% of urban population)****	673,000
Total BPL Households	7.67 million

* 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.

** Assuming five person per Households.

*** Rural poverty ratio in rural Bihar is 42.1% for 2004-05 (Source: CSO, NSSO Survey Reports)

**** Rural poverty ratio in urban Bihar is 34.6% for 2004-05 (Source: CSO, NSSO Survey Reports)

Poverty Outreach of Microfinance in Bihar

Microfinance Outreach	
A. SHG Coverage	
Total Number of SHGs credit linked in the state ^[1]	92,008
Total Number of Households Covered (13 members/households per SHG)	1,196,104
Percentage of BPL Households as SHG members#	15.61%
B. MFI Coverage	
Total Number of clients/households covered by MFIs (Assuming one client per household)*	236,343
Percentage of BPL Households as MFI clients#	3.1%
C. Percentage of Poor Households covered by Microfinance	18.7%

^[1] Source: NABARD data for March 2008. Note: Total BPL households estimated to be 7.67million in 2008.

assuming all SHG members and MFI clients are BPL

* Source: SADHAN, The Microfinance Quick Report, 2008 & MFI Reports.

Credit Demand of Poor Households in Bihar and the Supply Gap

Demand	
Credit requirement per poor HH per annum (Assumed)	
(a) Rural	Rs. 6,000
(b) Urban	Rs. 10,000
Total Credit Demand for Rural BPL households per annum	Rs. 41,945 million
Total Credit Demand for Urban BPL households per annum	Rs. 6,730 million
Total Credit Demand for all BPL households per annum	Rs. 48,675 million
Supply	
Estimated Annual credit supply from Banks and MFIs during 2007-08*	Rs. 2,128 million
Demand-Supply Gap	96%

* Includes Rs. 1,128mn in SHG bank linkages and Rs. 1,000mn by MFIs

Self Help Promoting Institutions (SHPIs)

NABARD-Supported NGOs have promoted 8,526 SHGs with total grant of Rs. 31.98 mn out of which 3871 SHGs are credit linked. (Upto 31st March 2008)

Name of the District	No. of NGOs supported by NABARD	Of which, NGOs promoted \geq 50 SHGs
West Champaran	29	11
Gaya	12	7
Nawada	12	6
Patna	12	6
East Champaran	11	6
Jamui	10	2
Bhagalpur	9	2
Katihar	9	3
Munger	9	3
All Bihar	198	76

Note: Districts with no NGO supported are Araria, Kaimur, Khagaria, Madhepura and Rohtas. Districts with only one NGO supported are Buxar, Darbhanga, Jehanabad, Lakhisarai, Sheikpura, Sheohar.

Constraint to Growth of Microfinance in Bihar

- Regional Imbalance- Skewed distribution of SHGs across the districts.
- Weak Infrastructure- Affects outreach and effective support to groups, increasing costs and reducing efficiency.
- Law & Order – Caste conflicts, Naxalite activities and domestic violence.
- Lack of experience and capacity among the NGOs/MFIs for microfinance.
- Issues related to transition from grant-driven to revenue-based model.
- Fund constraints for start-ups.
- Conservative attitude of bankers towards SHPIs/SHGs
- Effect of subsidised SGSY loans.
- Competition from multi-state MFIs.

Microfinance Innovations

- **Institutional Development:** WDC and BRLP are promoting a multi-tier federation structure for SHGs with block-level financial federations. 72 federations formed under the new Self-Supporting Cooperative Societies Act.
- **Incubating NGO/MFIs:** RGVN and BASIX are incubating small NGOs/ MFIs through capacity building inputs and initial working capital. RGVN has supported more than 50 NGOs/MFIs.
- **Business Correspondents/Facilitators:** SBI is using post offices as business facilitators. SBI has opened Credit Processing Cells and appointed Channel Management Advisors for the effective use of Business Facilitators.
- **IT applications:** PNB has opened no-frill accounts and issued smart cards to eligible clients in Tenari Panchayat.
- **Product Diversification:** MFIs are beginning to offer multiple financial services as per the needs of their clients. NIDAN is a pioneer in microinsurance linking up with LIC for a group insurance scheme and NIC for Mediclaim.
- **Financial Inclusion:** (i) Bank accounts opened for payments of NREGA wage-earners;
(ii) 19 districts selected for 100% financial inclusion

Towards a Microfinance Vision for Bihar*

Vision: To provide financial services to 5 million poor families to cover over 60% of the poor in Bihar by 2013 through banks and MFIs.

- Major thrust on SHG development to increase number of SHGs at 25% per year to scale-up provision of financial services
- Formation of State Level Coordination Committee for Microfinance to coordinate activities of all stakeholders.
- Creation of Bihar Microfinance Fund for support for SHG formation and capacity building.
- Image-building to attract microfinance funders through dissemination of positive achievements and good practices in the State.
- Preparation of MFOs/MFIs directory to be updated every year.
- Development of products and technologies related to savings, microinsurance, remittances, and emergencies such as floods.

* As being developed in association with representatives of following stakeholders: NABARD, BRLP, WDC, SBI, PNB, SIDBI, SKS, ASSEFA, NIDAN, CDOT, APMAS, M2i consulting, BASIX, CRDCM & Bihar Dev. Trust.

Vision for Microfinance: Projections for 2013

Indicators	2008	2013
Population estimate – (as on 1 April)*	92.9 mn	100.7 mn
No. of Poor Households#	7.7 mn	8.05 mn#
Total No. of SHGs linked to banks	92,008	280,786**
Total no. of microfinance clients	1.43 mn	5.00 mn
Of which: (a) Through SHG-bank linkage	1.19 mn	3.7 mn
(b) MFIs	236,343	1.3 mn***
No. of SHPIs	250	350
No. of MFIs	20	35
Total estimated credit flow during the year	Rs.2,128 mn	Rs. 15,000 mn
Of Which: (a) SHG-bank linkage	Rs. 1,128 mn	Rs. 7,000 mn
(b) MFIs	Rs. 1,000 mn	Rs. 8,000 mn
Poor HHs covered by Microfinance	18.82%	62 %

*All India Census data 2001

#Poverty ratio for Bihar as 42.6% and assuming 40% in 2013.

**Assuming 25% annual growth in SHG bank linkages.

***Approx. 6000 per client.



Thank you for your attention

