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MFI AND RURAL INDEBTEDNESS: A CASE STUDY OF BIHAR AND JHARKHAND

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ABSTRACT

The objective of the paper is to analyse the indebtedness through microfinance institutions in Bihar and Jharkhand. The data were collected from microfinance institutions operating in Bihar and Jharkhand. Over-indebtedness had become a problem in India because of the increased number of microcredit institutions, a lack of regulation and the absence of a strong credit bureau that would make it easier to identify clients who have multiple loans. Average loan amount from microfinance institutions was lower in Bihar as compared Jharkhand. About one fourth (26%) clients have taken loan from small microfinance institutions whereas three fourth (74%) clients have taken loan from big microfinance institutions. majority of the borrowers of microfinance institutions were from backward castes (41%) followed by SC (27%). Schedule tribes and minority constituted 5 % and 7% respectively. Less than one third (27%) of the total borrowers of MFIs were from General Category. Despite the presence of financial institutions like Commercial Banks, Regional Rural Banks, the rural mass turned toward Micro finance institutions for credit. Although microfinance institutions were less preferred if formal institutions deliver adequate credit on time and hassle free. Hassle free; door step service, timely availability and transparency were the reasons behind people opting for microfinance institutions

INTRODUCTION

The terms ‘Microfinance’ refers to the extending the whole range of financial Services from saving to micro credit to micro insurances to micro enterprises and lot more for the poorest section of the society. Robinson (2001) gives a very plausible definition of microfinance. According to him, “Microfinance refers to small scale financial services for both credit and deposit-that are provided to people who farm or fish or herd; operate small or microenterprises where goods are produced, recycled, repaired or traded; provide services; work for wages or commissions; gain income from renting out small amount of land, vehicle, draft animals, or machinery and tools; and to other individuals and local groups in developing countries in both rural and urban areas”. Bhairav (2006) proclaimed in his study that there is incontrovertible evidence that rising agricultural debts are forcing farmers to commit suicide and severely affecting Indian Agriculture. Mohanty (2007) studied about rural indebtedness in India and estimated average debt per indebted households of agricultural laborers.
It’s a world away from three decades ago, when banks ignored the world’s poor, leaving many of them unable to borrow money at affordable rates. In the beginning, microfinance sought to alleviate poverty by giving out tiny loans to help people start small businesses. Popularized by Bangladeshi economist and Nobel Peace Prize laureate Muhammad Yunus and Grameen Bank, which he founded in 1983, the microfinance industry has since grown to hundreds of institutions serving more than 150 million borrowers worldwide. Microfinance industry is currently united around a common concern: avoiding over-indebtedness. Whether to protect the social impact on customers or the institutional viability of MFIs, over-indebtedness is crucial to all parties involved. Over-indebtedness had become a problem in India because of the increased number of microcredit institutions, a lack of regulation and the absence of a strong credit bureau that would make it easier to identify clients who have multiple loans. But the last few years have brought growing pains to microfinance. As nonprofits proved the world’s poor to be reliable clients, many of these same institutions transformed into for-profit lenders or banks, and rapidly expanded their outreach, along with their profits. Their financial success pointed the way for traditional banks and for-profit agencies to move into the market, thereby increasing competition. Lucrative initial public offerings from Mexico’s Compartamos Banco in 2007 and India’s SKS Microfinance Ltd. in 2010

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triggered heated debate about profiting off the poor. Last year, in the Indian state of Andhra Pradesh, the local government restricted microfinance after a string of borrower suicides led to accusations of exploitation, harsh collection tactics and exorbitant interest rates. Controversy even spread to Bangladesh, where Prime Minister Sheikh Hasina declared microfinance was “sucking blood from the poor in the name of poverty alleviation.” In March, Bangladesh’s central bank removed Yunus still revered in the industry as microfinance’s patriarch as managing director of Grameen Bank and exerted greater control over the institution. Over-indebtedness and lack of repayment are now among the top concerns in the microfinance sector. In “Microfinance Banana Skins 2011” a recent survey of more than 500 microfinance institutions from 86 countries credit risk was cited as the number one concern among microfinance practitioners, investors and analysts. “Above all, credit risk is seen to reflect the fast-growing problem of over-indebtedness among millions of microfinance customers: poor people who have accumulated larger debts than they will ever be able to repay,” concludes the survey, the third such report about the microfinance industry from the London-based Centre for the Study of Financial Innovation. Over-indebtedness could potentially lead to heavy loan losses among microfinance institutions, the report said, adding: “This problem is now so broad that it has the makings of a worldwide social/economic phenomenon”. Microfinance institutions differ in selection of clients with other formal financial institutions. Berenbach *et al.* (1994) were of the opinion that as far as screening of borrowers credit worthiness was concerned, three methods were evolved to assess the borrowers’ credit worthiness. The most common was to lend to members of a group who were jointly and severally liable for the repayment of loans made to each member of the group. Screening was facilitated by self selected groups. This ensured that only people who the rest of the group took to be credit worthy were allowed in. Such groups have been euphemistically called ‘solidarity groups’. This was by far the common approach, although it did not necessarily attest to its efficacy. Charging market interest rates and obtaining character references were the other two selection tools commonly employed by DFIs. Perhaps the greatest innovation in providing financial services to the rural poor came with respect to the manner in which the DFI ensured repayment. The objectives of the present study is to analyse microfinance institutions and rural indebtedness in Bihar and Jharkhand.

DATA AND METHODOLOGY

The study was conducted by surveying households in 16 villages of Bihar and Jharkhand, collecting ting data on indebtedness from various sources; compare changes in composition of rural indebtedness and impact of MFI operations on rural indebtedness. The survey concentrated use of comprehensive questionnaire. Meeting was held with officials of NABARD, Banks and MFIs to get first hand information regarding the issues.

Sampling

The method of sampling used in this research study was stratified sampling. Four districts each from Bihar and Jharkhand were selected on the basis of economic and demographic character of the state. The list of identified districts in both the states is as under. Two blocks from each of these sampled districts were identified based on the Size of Population. One block with highest number of population and another block with lowest number of population from each district were identified. Distance from district headquarter was another criteria for identification of block. Out of these two selected blocks from each district one block was near and another was far away from the district headquarter. In this way, altogether eight blocks from these above selected districts of Bihar and Jharkhand was sampled which is given below.

Table 1. List of Identified Blocks

State	District	Blocks	
Bihar	Gaya	i.	Bodhgaya
		ii.	Barachatti
	East champaran	ii.	Motihari
		v.	Raxaul
	Purnia	v.	Bhawanipur
		'i.	Purnia East
	Bhagalpur	ii.	Sabour
		ii.	Pirpainti
Jharkhand	Ranchi	x.	Bunddu
		x.	Kanke
	Hazaribagh	:i.	Barhi
		ii.	Bishnugarh
	Deoghar	ii.	Deoghar
		v.	Debipur
	West singhbhum	v.	Adityapur Gamharia
		'i.	Chaibasa

Three villages from each of the selected blocks were identified based on the size of population, distance from the block headquarters and their socio -economic condition. Following factors have been given due consideration while classifying into different strata while selecting three villages from each of these sampled blocks.

RESULTS AND DISCUSSIONS

The data were collected from respondents to know about financing by microfinance institutions which operate as registered societies, NBFC and trusts etc.

Average loan from MFI

The average loan amount in different districts is presented below in table below.

Table 1. Average Loan from MFI

District	Amount(In Rupees)
Bhagalpur	13348
East Champaran	10714
Gaya	9000
Purnea	12889
Total (Bihar)	11859
Deoghar	13765
Hazaribag	14148
West Singhbhum	8714
Ranchi	14413
Total (Jharkhand)	13674
Total	13010

Table 2. Categorization of borrowers in small and large microfinance institutions

MFIs	Bhagalpur	Deoghar	East Champaran	Gaya	Hazaribag	West Singhbhum	Purnea	Ranchi	Total
Small MFIs									
AJIWIKA	0	4	0	0	0	0	0	0	4
%	0%	2%	0%	0%	0%	0%	0%	0%	2%
ASSEFA	0	18	0	4	0	0	0	0	21
%	0%	10%	0%	2%	0%	0%	0%	0%	12%
Vedika credit capital	0	0	0	0	18	0	0	0	18
%	0%	0%	0%	0%	10%	0%	0%	0%	10%
BDT	3	0	0	0	0	0	0	0	3
%	2%	0%	0%	0%	0%	0%	0%	0%	2%
Sub total	3	22	0	4	18	0	0	0	46
%	2%	13%	0%	2%	10%	0%	0%	0%	26%
Big MFIs									
ASHMITA	0	0	0	0	0	0	0	6	6
%	0%	0%	0%	0%	0%	0%	0%	3%	3%
Bandhan	0	0	2	0	0	7	0	7	16
%	0%	0%	1%	0%	0%	4%	0%	4%	9%
BASIX	0	19	0	0	0	0	2	10	31
%	0%	11%	0%	0%	0%	0%	1%	6%	18%
SHARE	0	0	7	0	0	0	0	0	7
%	0%	0%	4%	0%	0%	0%	0%	0%	4%
SKS	20	13	19	0	8	0	7	0	67
%	11%	7%	11%	0%	5%	0%	4%	0%	39%
Subtotal	20	32	28	0	8	7	9	23	127
%	11%	18%	16%	0%	5%	4%	5%	13%	73%
Total	23	54	28	4	26	7	9	23	174
%	13%	31%	16%	2%	15%	4%	5%	13%	100%

(Figures in parenthesis are % of sampled MFI)

Table 3. Social Categories Served by microfinance Institutions

Small MFIs						
MFIs	GENERAL	Minority	OBC	SC	ST	total
AJIWIKA	2	0	2	0	0	4
%	50%	0%	50%	0%	0%	100%
ASSEFA	2	4	14	1	0	21
%	10%	19%	67%	5%	0%	100%
BDT	0	2	1	0	0	3
%	0%	67%	33%	0%	0%	100%
Vedika credit capital	10	0	2	2	4	18
%	56%	0%	11%	11%	22%	100%
subtotal	14	6	19	3	4	46
%	30%	13%	41%	7%	9%	100%
ASHMITA	2	0	4	0	0	6
%	33%	0%	67%	0%	0%	100%
Bandhan	3	0	6	6	1	16
%	19%	0%	38%	38%	6%	100%
BASIX	9	2	13	6	1	31
%	29%	6%	42%	19%	3%	100%
SHARE	0	0	5	1	1	7
%	0%	0%	71%	14%	14%	100%
SKS	10	4	30	21	2	67
%	15%	6%	37%	31%	3%	100%
subtotal	24	6	53	44	5	127
%	19%	5%	42%	35%	4%	100%
Grand total	38	12	72	47	9	174
%	22%	7%	41%	27%	5%	100%

(Figures in parenthesis are % of sampled MFI)

It is obvious from the above table that average loan amount from microfinance institutions was lower in Bihar as compared Jharkhand. Average loan amount was highest in case of Hazaribag (14148) Ranchi district followed by Ranchi (Rs. 14413) and Deoghar (Rs. 13765) in Jharkhand. Average loan amount was least in West Singhbhum (Rs. 8714) district in Jharkhand. In Bihar average loan amount was highest in Bhagalpur (Rs. 13348) district followed by (Rs. 12889). In Bihar, average loan amount taken by borrowers was least in Gaya (Rs. 9000).

Loan of various microfinance agencies

The data regarding loan of borrowers from various microfinance institutions were collected, and categorized into small and large microfinance institutions and presented in table 3. It is obvious from the table that clients have taken loan from both large and small microfinance institutions. Here AJIWIKA, SMBT of ASSEFA, Vedika Credit Capital, BDT were small microfinance institutions. Ashmitha, SHARE, BASIX, SKS, Bandhan were big microfinance institutions.

It was found that 26% clients have taken loan from small microfinance institutions whereas 73% clients have taken loan from big microfinance institutions.

Social category of microfinance institutions

Data regarding social category of the borrowers of microfinance institutions were collected and presented below:
It is obvious from the table that the majority of the borrowers of microfinance institutions were from backward castes (41%) followed by SC (27%). Schedule tribes and minority constituted 5 % and 7% respectively. Less than one third (27%) of the total borrowers of MFIs were from General Category. There were marginal differences in borrower's castes category in large and small microfinance institutions. Share of number of borrowers from backward castes 41% and 42% respectively in small and large microfinance institutions. Schedule castes and schedule tribe constituted16%. Schedule castes and schedule tribe together constituted 16% in small MFIs. Percentage borrowers from minority community were 13% and 7% respectively in small and large MFIs. Percentage borrowers from general category were more in small MFIs (30%) than large MFIs (22%). Share of minority community was less as compared to other social categories.

Profession wise categorization of borrowers of small and large microfinance institutions

Data on borrowers of microfinance Institutions were categorized according to their profession of borrowers and presented below:

Table 4. Profession wise categorization of borrowers of microfinance institutions

MFIs	Farmer	Labour	Self- employed
Small mFIs			
AJIWIKA	2	1	1
	50%	25%	25%
ASSEFA	6	4	11
	29%	19%	52%
BDT	0	0	3
	0%	0%	100%
Vedika credit capital	16	2	0
	89%	0%	11%
Sub total	24	7	18
	52%	15%	39%
Large MFIs			
ASHMITA	0	0	6
	0%	0%	100%
SHARE	0	4	3
	0%	57%	43%
SKS	14	33	20
	21%	49%	30%
Bandhan	2	1	13
	13%	6%	81%
BASIX	5	6	20
	16%	19%	65%
Sub Total	21	42	64
%	17%	33%	50%
Total	43	49	82
	25%	28%	47%

Profession wise classification shows that 25%, 28% and 47 % of the sampled respondents who have availed loan from microfinance institutions were farmers, labourer and self employed respectively.

Borrowers from small microfinance institutions were farmers (52%), labourer (15 %) and self employed (39%). 81% 65% of clients of Bandhan and BASIX respectively were self employed. They were engaged in various kinds of microenterprises e.g, vegetable vending, milk selling etc. Income generation through microenterprises helped in high repayment of borrowers.

Types of loans provide by larger and smaller microfinance institutions

Large microfinance institutions like Bandhan have diversified its loan portfolio. Suchana (Micro Loan) - 12 months, Srishti (Micro Enterprise Loan) - 24 months, Samriddhi (Micro Small and Medium Enterprise Loan) - 12/18/24 months, Suraksha (Micro Health Loan) - 12 months, Susikhsha (Micro Education Loan) - 12 months. SKS also has diversified loan products. Smaller microfinance institutions only give small amount 5,000 to 15000 per borrower. And most of the utilization of loan taken from small MFI is for consumption purpose. These microfinance institutions are working in localized areas.

Factors motivate clients to borrow from microfinance institutions

Despite the presence of financial institutions like Commercial Banks, Regional Rural Banks, the rural mass turned toward Micro finance institutions for credit. Although microfinance institutions were less preferred if formal institutions deliver adequate credit on time and hassle free. When adequate, hassle free and timely credits were not available, borrowers turn towards microfinance institutions and other informal sources. Adequate, hassle free and timely credit from formal finance institutions were not available. The microfinance institutions have worked aggressively towards supply of credit to the rural as well as urban households. They have provided loans under different category of needs to all the economically needy individuals. The respondents were asked why they have taken loan from microfinance institutions and reason of preference. The detailed picture is presented in table 6. Hassle free; door step service, timely availability and transparency were the reasons behind people opting for microfinance institutions. Some of the respondents (23%) stated that microfinance institutions were not transparent. Microfinance institutions should improve transparency which would help to build the faith amongst microfinance clients. After the reasons for preferring the MFI as a source of credit, the major question comes as supply of credit. Until the supply of credit is proper and meets the demand and need of the customer, the objective of establishing a separate medium for supply of credit to rural masses cannot be met.

Exclusion of clients from microfinance institutions

In order to assess the reasons for exclusion from microfinance, the MFIs were asked about the process of selection of target area, selection of members, inclusion and exclusion of different sections of the society according to their economic status. In this regard, the MFIs were asked about the process of selection of village for formation of SHG/ JLG. Their opinion in this regard is presented below

Table 5. Reasons for giving preference to MFI

State	District	Hassle Free	Door Service	Timely availability	Transparency
Bihar	Bhagalpur	22	22	22	21
	%	95.65%	95.65%	95.65%	91.30%
	East Champaran	27	25	27	27
	%	96.43%	89.29%	96.43%	96.43%
	Gaya	4	4	4	1
	%	100.00%	100.00%	100.00%	25.00%
	Purnea	9	9	9	9
	%	100.00%	100.00%	100.00%	100.00%
Bihar Total		62	60	62	58
		96.88%	93.75%	96.88%	90.63%
Jharkhand	Deoghar	51	54	47	45
	%	94.44%	100.00%	87.04%	83.33%
	Hazaribag	26	26	26	26
	%	100.00%	100.00%	100.00%	100.00%
	West Singhbhum	7	7	7	5
	%	100.00%	100.00%	100.00%	71.43%
	Ranchi	23	23	22	0
	%	100.00%	100.00%	95.65%	0.00%
Jharkhand Total		107	110	102	76
		97.27%	100.0%	92.73%	69.09%
Grand Total		169	170	164	134
		97.13%	97.70	94.25%	77.01%

(Figures in parenthesis are % of sampled respondents)

The table clearly depicts that 94% MFIs selected village for formation of SHG on the basis of Secondary data. 39% and 22% MFIs selected the villages for formation of SHG on random basis and socio economic survey respectively. When the MFIs were asked about the process of selection of members of SHG/ JLG, they shared the following.

Table 6. Process of selection of Village

Opinion	Yes	No
Random Basis	7(39%)	11(61%)
Socio Economic Survey	4(22%)	14(78%)
Secondary Data	17(94%)	1(6%)

Table 7. Process of selection of Members of SHG

Opinion	Yes	No
PRA	6(33%)	12(67%)
Random	9(50%)	9(50%)
Socio Economic Survey	10(56%)	8(44%)

The table clearly pointed that most of the MFIs used all the three process according to the situation. 56% MFIs selected the members of SHG/ JLG the basis of Socio Economic Survey. 50% and 33% MFIs selected the members of SHG/ JLG on random basis and PRA respectively. When the MFIs were asked about the income level of beneficiaries they prefer for giving credit, most of the MFIs preferred people from small income group, lower middle class segment and the people engaged in petty business. 61% MFIs stated that they also select members of extremely poor family for credit services.

Table 8. Reasons for exclusion from MFI

Opinion of MFIs	
Defaulter of other agencies	15(83%)
Migrant Population	10(56%)
Very low income level	8(44%)
Landless/Asset less	4(22%)

When they were asked about the reason of exclusion of poor households from microfinance institutions, they shared the following reasons. The MFIs clearly indicated that the major reasons for people remaining excluded from the microfinance institutions is that either they have poor credit history wherein they have not repaid the loan taken from other institution (83%) or their income level is so less that they cannot be considered for credit worthy. Similarly, other excluded persons from microfinance institutions were migrants (56%), person having very low/ no income (44%) and asset less or landless (22%). Microfinance institutions face risk in financing migratory population. Land or assets is not a concern, giving loan in majority of the cases. Giving loan to people having assets/land secures the lending. 22% microfinance institutions stated landless and asset less people were excluded because there were risks involved in financing those clients.

Opinions of borrowers on reasons for exclusion: Despite various measures by banks and other financial institutions, many respondents had to avail credit from informal sources like money lenders and friends/ family. It signifies that they are still excluded from formal financial institution. They were asked about the reasons for exclusion from formal financial institutions. Their responses are presented blow:

Most of the respondents (46.49%) stated that due to lack of fulfillment of credit needs from formal financial institutions, they avail credit from non -formal institutions. 16.14% of the total respondents stated that they were defaulter of other institutions. During the discussion 5.26% of the total respondents also stated that they were not aware regarding facilities provided by banks and other financial institutions. There were differences in opinion on inclusion between the two states. 39.82% and 56.28% respondents in Bihar and Jharkhand stated that people were excluded due to non fulfillment of requirement by financial institutions. 1.47% and 10.82 % respondents respectively in Bihar and Jharkhand stated that they were not aware about facilities of financing institutions.

Table 9. Reasons for Exclusion (Borrowers Opinion)

District	Non Fulfillment of Requirement	Not aware regarding facilities	Defaulter of other organization	No Response
Bhagalpur	20	5	10	25
	32%	8%	16%	40%
East Champaran	40	0	22	27
	40%	0%	22%	27%
Gaya	15	0	25	22
	24%	0%	40%	35%
Purnea	60	0	15	40
	52%	0%	13%	35%
Bihar Total	135	5	72	114
	39.82%	1.47%	21.24%	33.63%
Deoghar	33	0	20	15
	45%	0%	27%	21%
Hazaribag	24	0	0	10
	71%	0%	0%	29%
West Singhbhum	40	25	0	26
	44%	27%	0%	29%
Ranchi	33	0	0	0
	100%	0%	0%	0%
Jharkhand Total	130	25	20	51
	56.28%	10.82%	8.66%	22.08%
Grand Total	265	30	92	165
	46.49%	5.26%	16.14%	28.95%

(Figures in parenthesis are % of sampled respondents)

Summary and conclusion

Over-indebtedness had become a problem in India because of the increased number of microcredit institutions, a lack of regulation and the absence of a strong credit bureau that would make it easier to identify clients who have multiple loans. Average loan amount from microfinance institutions was lower in Bihar as compared Jharkhand. About one fourth (26%) clients have taken loan from small microfinance institutions whereas three fourth (74%) clients have taken loan from big microfinance institutions. majority of the borrowers of microfinance institutions were from backward castes (41%) followed by SC (27%). Schedule tribes and minority constituted 5 % and 7% respectively. Less than one third (27%) of the total borrowers of MFIs were from General Category. Despite the presence of financial institutions like Commercial Banks, Regional Rural Banks, the rural mass turned toward Micro finance institutions for credit. Although microfinance institutions were less preferred if formal institutions deliver adequate credit on time and hassle free. Hassle free; door step service, timely availability and transparency were the reasons behind people opting for microfinance institutions

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