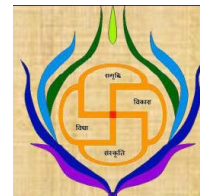


**COST STRUCTURE AND OTHER  
COMPLEXITIES IN SCALING UP OF  
OPERATIONS OF SMALL MICROFINANCE  
INSTITUTIONS IN BIHAR**

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# LIST OF ABBREVIATIONS

ASA	Activist for Social Alternatives
BDT	Bihar Development Trust
BIRD	Bankers Institute of Rural Development
BISWA	Bharat Integrated Social Welfare Agencies
BRAC	Bangladesh Rural Advance Commission
CAC	Credit Agricole du Cameroun
CAR	Capital Adequacy Ratio
Cam-	Cameroonian Co-operative Credit Union League
CCUL	
C-DOT	Centre for Development Orientation and Training
CGAP	Consultative Group to Assist Poor
DDMs	District Development Manager
FIMAC	Founds Investments des Micro Realization
FIMO	Financial Information and Monitoring Organizer
HR	Human Resource
INR	Indian Rupees
IT	Information Technology
JLG	Joint Liability Group
KYC	Know Your Customer
LDCs	Least Developed Countries
LDMs	Lead District Manager
MDG	Millennium Development Goals
mFIs	Microfinance Institutions
MIS	Management Information System
NABARD	National Bank for Agriculture and Rural Development
NB	National Bank for Agriculture and Rural Development
NGOs	Non government Organization
NOF	Net Owned Fund
PSB	Public Sector Bank
PLP	Potential Linked Plan

RBI	Reserve Bank of India
RGVN	Rastriya Gramin Vikas Nidhi
RUDSETI	Rural Development & Self Employment Training Institute
ROI	Return on Investment
SBLP	SHG Bank Linkage programme
SHG	Self Help Group
SIDBI	Small Industries Development Bank of India
SKRDP	Shri Khetra Dharmasthala Rural Development Project
SMCS	Swyamsree Microcredit Services
SPSS	Statistical Package For Social Sciences
SSSmFI	SKRDP – SIDBI School of Microfinance
USD	United States Dollar
WDC	Women Development Corporation

# EXECUTIVE SUMMARY

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. 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.

The estimated number of mFIs in India which were actually undertaking lending activities was 800. The outreach of mFIs in India was 2.5 crore beneficiaries with a loan portfolio of about Rs.12500 crore as on 31 March 2009. Presently, mFIs are providing microfinance to the tune of 5.21 percent of the estimated demand of Rs. 240000 crore. Over 41 Micro Finance institutions (mFIs) are operating in Bihar. Out of 41 mFIs operating in the state, 6 have headquartered outside the state and can be termed as multistate mFIs. The outreach of mFIs in Bihar was about Rs.207 crore spread over 13.32 lakh beneficiaries as on 31 March 2009. The 8% of the population of the country (Bihar) was getting only 1.66% of microfinance extended by mFIs in the country. There was an urgent need to scale up microfinance activities by mFIs in the country and especially in Bihar.

The objectives of the present study were to study the various cost structures, capital requirements, sustainability of mFIs, besides their MIS and HR issues including leadership and to find out the ways for scaling up the activities of mFIs.

## **Major findings:**

- 41 mFIs were working in Bihar as on 31 March 2009. Out of these 6 were multistate mFIs. The coverage of mFIs in Bihar as on 31 March 2009 was 13.32 lakh beneficiaries with loan portfolio of Rs.207 crore. Annual disbursement of loan by mFIs in the state was Rs.287.51 crore. 8% of population of country (Bihar's population) was getting only 1.66 percent share of microfinance extended by mFIs in the country.

- Majority of mFIs (58.54%) were following the SHG pattern for financing. However, 21.95% mFIs were following JLG pattern. 14.63% of mFIs were following SHG and JLG pattern both. A miniscule portion of clients was financed on individual basis.
- Only 8.7% mFIs were offering complete range of products to the beneficiaries.
- Tenure of the loan varied from 4-24 months. In majority of the cases tenure was 12 months.
- Majority (56.5%) of the mFIs were following monthly repayment schedule. Rest were following weekly and daily repayment schedule.
- In 65.2% mFIs recovery was ranging from 98% to 100%.
- 69.6% mFIs were charging flat rate of interest varying from 12% to 18% and remaining mFIs were charging interest on reducing balance varying from 15% to 27%. Charging processing fee, service charges, non interest bearing cash security etc along with flat rate of interest rendered the real cost of borrowing non – transparent and exorbitant.
- Return on fund varied from 3.21% to 28.76%. There were wide variation in cost of fund also and it varied from 1.11% to 13.45%.
- Financial margin was positive in case of all sampled mFIs and it varied from 0.87% to 15.31%.
- Risk cost varied from zero to 1.7%. Only SMCS, Gram-utthan, Ajiwika and Mass Care International were having risk costs more than 1%.
- Net Financial Margin was also positive in case of all the mFIs except Saija Finance and four SMBTs and it varied from 0.87% to 14.94%.
- Transaction cost of some of the mFIs (Saija Finance Pvt Ltd. – 28.75%, Jeevan Jyoti Kala Kendra – 24.36%, Nidan – 19.99%, Bihar Development Trust – 17.64% and Cashpor Micro Credit -14.67%) was exceptionally high. These organizations should try to reduce their transaction cost.
- The net margin varied from -4.01% to 8.27%. Net margin was negative in case of four federations of SNFL and Saija Finance. These organizations should endeavor to make net margin positive in order to achieve sustainability.

- Cost per unit of money lent varied from 2.14% to 40.24%.
- Debt ratio varied from 0% to 99.18%.
- Capital adequacy ratio was more than 10% in case of 69.6% of the mFIs.
- Interest coverage ratios were more than 100% for all mFIs except 4 federations of SNFL and SKS microfinance.
- Financial sustainability was more than 100% in case of all mFIs except 4 federations of SNFL and Saija Finance Private Limited.
- Only four mFIs like BISWA, SMCS, Gram-utthan, and Ajiwika had bad debt to portfolio more than 1%.
- Apart from adequate funding microfinance sector needed appropriate human resource policy and technology to scale up the operation.
- Only 69.6% of the mFIs were having adequate staff. Other mFIs were facing problem of paucity of experienced and qualified staff. Staffs were not willing to work in rural areas.
- In case of 8.69% of mFIs attrition rate were above 20% while in case of 8.69% mFIs attrition rate varied from 11% to 20%. In case of 21.75% mFIs attrition rate was 6% to 10%.
- In case of 65.22% mFIs computerization level was 100%.
- In case of only one mFI, viz SMCS, 100% staff were computer skilled.
- Some mFIs had created HR cell/HR Development Department/grievances redressal cell.
- Most of the mFIs were organizing training/exposure visits for capacity building of their staff and developed system of guidance/ counseling/ internal promotion /Incentive.
- Primary role of leaders of mFIs was acting as change agent, setting vision for the organization, directing efforts to achieve vision, predicting revenue and profitability, reducing risk of organization and making them sustainable.
- The most important suggestion for development of leadership was exposure to different mFIs /financial institutions, training and capacity building and developing 2<sup>nd</sup> line of leadership in the organization from beginning.

- Out of 23 sampled mFIs, 18 (83.8%) mFIs had either developed their software or they were using software developed by other support institutions. Many of the mFIs (26.0%) were maintaining management information system in EXCEL. Major software used by the different mFIs were Community Banker (8.7%), Trace Account (8.6%), Bijli (4.3%), FAMIS developed by BASIX (4.3%), FIMO software from Jayam, Hyderabad (4.3%), BRAC supported software, Bandhan software (4.3%), LMS-Loan Management System (4.3%), Matrix Software developed by Elistser IT Hyderabad (4.3%). None of the mFIs, bankers, and local NABARD officials was aware regarding "NABYUKTI" software.
- Some mFIs felt that software used by them was not able to generate proper report. Many of the software's were not customized to the need of the mFIs. Some of the software were in the old version. Many of the mFIs were not having skilled staff to operate the MIS software, which hampered the adoption of MIS software. MFIs desired to have web based software.
- Due to lack of awareness and high cost, microfinance institutions in Bihar 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 share of loan for income generating purposes (92.2%) was significantly higher than non income generating activities. Consumption oriented loan was replaced by production oriented loan.

- The income level, social status, confidence level of the borrowers improved significantly after availing finance.
- For scaling up the activities of microfinance sector following suggestions were given by beneficiaries.
  - ✓ 86.2% of beneficiaries were of the opinion that loan amount per beneficiary should be increased.
  - ✓ 32.4% beneficiaries suggested simplification of loan process.
  - ✓ 25.5% beneficiaries indicated that purpose of the loan should be widened.
  - ✓ 23.5% beneficiaries suggested for improving repayment schedule by giving some gestation period and tagging repayment with income accruing period and making periodicity as monthly.