MICROFINANCE – A STEP TOWARDS FINANCIAL UPLIFTMENT IN RURAL BENGAL

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Abstract

Microfinance is one of the most noticeable innovations in eradicating the unemployment and poverty in the rural areas in India as well as in West Bengal. The most important benefit of microfinance is that it helps long-term financial support in the backward rural areas. Economic growth, sustainable development and poverty alleviation can be achieved effectively with the help of Microfinance. There is a rapid growth in the strength of microfinance in the rural areas of our country. Remarkable progress has been made during the last two decades in creating new techniques to deliver financial services to the poor on a sustainable basis. These loans are aimed at empowering the impoverished people to start their own businesses and to grow their money so that they can achieve long-term financial independence and develop sustainably. It helps in promoting sustainable agriculture and sound conservation of natural resources. Microfinance helps to empower the poor women in rural areas.This paper mainly focuses on the benefits and challenges of microfinance in rural areas for a sustainable development and the role of microfinance institutions (MFIs) operating in rural West Bengal which are helping in financial upliftment.

Keyword

Microfinance, Microcredit, Micro-Insurance, Sustainable Development, Microfinance Institution (MFI), Self Help Group Bank Linkage Programme (SBLP)

I. INTRODUCTION

Microfinance is called upon to provide financial services to the poor people or family with low income. It is referred to the grant of a small loan by a bank or any other financial institution as well as to the provision of other facilities including insurance, savings, and money transfer. These basic financial services help those poor people to save, invest, and generate their income. Potential loan debtors might have enough income or collateral but they still cannot appeal to banks because they require too small amount. Taking into account that informal financial relationships with village moneylenders lead to very high costs for borrowers, microfinance institutions are often very much to the point.

To assuage doubts about what microfinance actually implicates, two more facts about the definition should be considered:

- Microfinance does not deal solely with money making activities. Such programs also provide help in the form of essential living costs, medical or educational expenses.

- Microfinance does not represent a phenomenon of developing countries. There is a need for such programs worldwide.

Microfinance has grown from the obscure efforts of a few philanthropic institutions into a global industry that reaches 150–200 million clients through the branches of thousands of institutions. Microfinance has matured from exclusively funding loans to providing savings, insurance, healthcare, and education. Yet many people still think of it narrowly as microcredit. Understanding remains thin of what the industry does, how it functions and why.

Introduction to Microfinance provides a non-technical introduction to the broad array of inclusive financial and non-financial services for the world's poor. It explores the financial lives of those families, and the microfinance institutions and rapidly growing industry that serve them. Written in close collaboration with college students for college students, under the auspices of one of the US's leading undergraduate programs in microfinance, it is the first-ever introductory college textbook about microfinance.

Microfinance institutions make it possible for borrowers to:

- **Make Savings**
  In many countries, especially in undeveloped ones, part of the population doesn't even have bank accounts so there is no suitable option for them to save money. In order to protect savings from fraudsters, people often invest in material assets.

Therefore, they cannot use the advantages of money such as versatile divisibility and usability. Microfinance institutions offer low-income people to open an account, which is sometimes the only possibility for them.

- **Take out Tiny Loans**
  Traditional financial institutions do not usually grant tiny loans, since the costs are too high and the profit is low. Nevertheless, it often occurs that a sum not exceeding 100 US Dollars reveals radically different perspectives for a borrower. Developed microfinance tools allow granting such small loans. There are several ways microfinance helps the poor. The first is providing capital such as equipment, livestock or infrastructure know-how which brings an entrepreneur additional income. Microfinance can also be useful in offering not only direct business expansion but also an opportunity to pay off informal debts that have high interests with microloans having more temperate interest rates.

- **Conduct Transfers**
  Microfinance clients are able to transfer money, thus avoiding the need to travel far as well as the risk related to cash payments.

- **Use the Benefits of Insurance**
  In view of poor living conditions, there are more dangers and therefore varied accidents are more probable. For an individual living below the poverty line a micro insurance is a real possibility to receive a certain level of protection. The question that has to be answered is why interest rates offered by microcredit institutions prove to be higher than the ones offered by banks to wealthier people.

  - ✓ Taking into consideration the administrative cost, it is much cheaper in percentage terms to make a large loan than to provide small loans.
  - ✓ Making, for instance, 1000 tiny loans requires more staff time than granting a single large loan.
  - ✓ Operating in areas with low population density increases the costs of MFIs that automatically affects the terms offered to borrowers.

II. LITERATURE REVIEW

- Microfinance, according to McGuire and Conroy (2000), is “the provision of financial services, primarily savings and credit, to poor households that do not have access to formal financial institutions.”
- The Task Force on Supportive Policy and Regulatory Framework for Microfinance set up by NABARD in November 1998 defined microfinance as “the 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” (Sharma, 2001; Reddy, 2005, Reji, 2009).
- These financial services, according to Satish (2005) and Dasgupta (2006), generally include deposits, loans, payment services, money transfers, and insurance to poor and low income households and their microenterprises.
- However, the expression microfinance according to Torre and Vento (2006) denotes offering the financial services to “Zero or low income beneficiaries”.
- Wanchoo (2007) defines microfinance as “any activity that includes the provision of financial services such as credit, savings, and insurance to low income individuals who either fall below the nationally defined poverty line or fall just above that, with the goal of creating social value”. The creation of social value means making efforts in direction of eradication of poverty, improving livelihood opportunities for the poor through the provision of capital for micro-enterprise, promotion of savings for poor so that current problems and future risks can be minimized. However, how much below or above the poverty line has not been defined anywhere in the literature so far.
- Arabi (2009) and Satish (2005) defines microfinance as “small scale financial services primarily credit and deposits that are provided to people who farm, fish or herd” and adds that it “operates small or microenterprises both in urban and rural areas”.
- According to Dinesha and Jayasheela (2009), these financial services are provided by financial institutions to the poor to meet their normal financial needs life cycle, economic opportunity and emergency.
- In the words of Dhandapani (2009) microfinance means extension of small loans to the poor, especially women to start business, invest in self employment works with the aim to increase their income and standard of living.
- As per the definition of Nagayya and Rao (2009), microfinance refers to entire range of financial and non-financial services including skill upgradation and entrepreneurial development of poor.
- Sehrawat etal. (2011) however, defines microfinance as “a financial service provided by financial institutions to the poor which may include savings, credit, insurance, leasing, money transfer, equity transaction, etc. to meet their normal financial needs like life cycle, economic opportunity and emergency.
- In short, it can be said that the concept of microfinance involves ‘Banking for the poor and Banking with the poor’. Such banking initiatives open doors of finance for destitute and underprivileged people who otherwise do not have access to finance from formal financial sources due to lack of collateral security (Nagayya and Rao, 2009; Barman et al. 2009).

- Microfinance targets the poorest segment of clients. They are self-employed and household-based entrepreneurs. Their diverse “micro-enterprise” includes small retail shops, street vending, artisanal manufacture, etc.

III. OBJECTIVES OF MICROFINANCE

Microfinance companies have been established for the purpose of providing financial services to the micro-sector of the economy, which basically consists of a poor section, farmers, small traders, and retailers in rural and semi-urban areas. These are the organizations established for the purpose of carrying on the business of extending micro-finance services and may also operate in the form of a society, a trust, or a co-operative society.

With the emergence of the financial sector bringing into existence a wide variety of financial products, there is an increased diversification in the customer base. On one hand, the banks and large financial institutions are concentration on big business; on the other hand, NBFCs have taken charge of the financial needs of the unorganized sector of the economy.

The most important aspects of micro-finance can be defined as follows :

- It concentrates on building a financial system for the poor and unemployed
- It strives to build permanent local financial institutions that aim to attract domestic deposits, recycle them into loans, and provide other financial services
- Enabling financial services is the government’s job
- Promoting socio-economic development at the community level
- Developing and strengthening self-help groups and facilitating sustainable development through them
- Providing vocational training to unskilled population
- Empowerment of women
- Conducting programs for the poor
- Promoting sustainable agriculture and sound conservation of natural resources
- Organizing and coordinating based on the grass root level
- Making efficient use of the available resources for the generation of livelihood

IV. MICROCREDIT

The core product and one of the most important part of microfinance is microcredit. As a rule, microcredit is targeted at unsalaried borrowers having no or little collateral. This term does not typically include consumer credit extended to salaried employees and built upon automated credit scoring system. In turn, microfinance presents financial services and products, such as money transfers, savings, insurance, and other services offered by different providers.

Microcredit is defined as an extremely small loan to purchase productive assets boosting the poor's revenue allowing repayment over a short period of time in small installments without the guarantee of collateral. To experiment a formal model of the effect of such policy uses this software and the related paper on the rich and the poor.

The size of the loan is small in three dimensions:

1. In absolute monetary values, as compared to typical business loan, so as to operate in a segment where there is no banking competition;
2. In relation to the borrower's income, so that payback is easier;
3. In respect to the lender's portfolio, so that the default of any single borrower has no impact on its financial soundness.

The size is kept small for two further lender's reasons:

1. For any given portfolio, the smaller the single loan, the larger the number of recipients, thus the wider the outreach over the target population;
2. The goal of attracting extremely poor people and keeping the instrument not attractive for the more affluent. This is important since, as a general rule, if both poor and non-poor are eligible to a line of credit, the non-poor will typically crowd-out the poor, obtaining a much larger part of the funds, because non-poor are usually more educated, better informed, more capable of responding to requirements, more at ease in the relationship with the lender.

It is possible that the evolution of the target population reduces the number of the extreme poor (or that the threshold for defining them gets higher), thus, in addition to the classical micro-loan, other products are offered (e.g. larger loans)

V. MICRO-INSURANCE

Providing the poor with insurance against risks of any kind is the mission of micro-insurance. A small and repetitive payment covers - in a pool of people - the probability of a negative event deeply effecting one of them. By sharing the risk, the price can be kept low and the disruption to the partners of the affected person can be avoided.

For instance, the death of a micro-credit borrower, potentially leading to a negative legacy to the already badly hit family, can be insured so that the debt is eliminated (and the family even given the money for the funeral) while the MFI recovers the money from the insurer. By pooling all the MFI clients, the payment required for covering this risk can be kept quite low.

Micro-insurance is getting into new areas such as health risks, property damages in productive assets, whether-indexed crop insurance for farmers, storm housing damage, etc. These extensions rely on the observation that poverty can easily be the result of negative events, that the poor are the most hit by many widespread risks and that their precautionary savings are freezing badly needed resources.
At the same time, the huge number of poor and their wide geographical distribution is an attractive feature for the insurer, since the larger the pool, and the less correlated the events, the lower the payment necessary to cover the negative occurrence, thus its affordability for the poor themselves. These opportunities are at odds with traditional insurance institutions that are usually excluding the poor from coverage.

VI. IMPORTANCE OF MICROFINANCE

Microfinance is a key strategy in helping people living in poverty to become financially independent, which helps them become more elastic and better able to provide for their families in times of economic difficulty. Considering nearly half the world survives on less than Rs.150 a day, microfinance is a vital solution. Microfinance involves extending small loans, savings and other basic financial services to those people who don't have access to capital. In rural areas microfinance and microcredit is playing a significant role which is helping in rural development and economic growth in today's world. Micro-finance has a significant role in bridging the gap between the formal financial institutions (Like banks) and the rural poor. The MFIs accesses financial resources from the Banks and other mainstream Financial Institutions and provide financial and support services to the poor. Here are some goals microfinance institutes :

- To improve the quality of life of the poor by providing access to financial and allied services
- It creates a viable financial institution for making a economically sustainable communities
- To mobilize resources in order to provide financial and support services to the poor, particularly women, for viable productive income generation enterprises enabling them to reduce their poverty
- Help in poverty eradication
- To create opportunities for sustained self-employment for the underprivileged
- To train rural poor in simple skills and enable them to utilize the available resources

Self Help Group Bank Linkage Programme (SBLP)

Self Help Group Bank Linkage Programme (SBLP) is a step to bring the "unbanked" poor into the formal banking system and to inculcate thrift and credit habits. A natural corollary is for the group members to graduate into seeking better livelihood opportunities through access to credit from financial institutions.
Key Statistics under SBLP as of March 2017 *[Sa-dhan Report, 2017]*

- Total number of SHGs saving-linked with banks – 85.77 lakh
- Total saving amount of SHGs linked with banks – `16,114 crore
- Total number of SHGs with loan outstanding – 48.48 lakh
- Total loan amount outstanding – `61,581 crore
- Total No. of SHGs credit linked during 2015-16 – 18.98lakh
- Total Amount disbursed during 2015-16 – ` 38,781 crore

VII. BENEFITS OF MICROFINANCE

Microfinance is the practice of extending a small loan or other form of credit, savings, checking, or insurance products to individuals who do not have access to this type of capital. This allows individuals who are living in poverty to work on becoming financially independent so they can work their way into better living conditions.

Since a majority of the world is forced to survive on the equivalent of just $2 per day, microfinance becomes a solution that can help more people be able to improve their living conditions. These are the benefits of microfinance in developing countries and why everyone should consider getting involved in this form of lending.

- **Better Provide for Poor Families**

Microfinance allows for an added level of resiliency in the developing world. Even when households are able to work their way out of poverty, it often takes just one adverse event to send them right back into it. It's often a health care issue that causes a return to poverty. By allowing entrepreneurs to become more resilient through their own efforts at their own business, it gives them the opportunity to make it through times of economic difficulty.

Most of the households that take advantage of the microfinance offer that are available in developing countries live in what would be considered "abject poverty." This is defined as living on $1.25 per day or less – though some definitions extend this amount to $2 per day or more. About 80% of that amount goes to the purchase or creation of food resources.

By offering microfinance products that can be repaid with that remaining 20%, more households have the opportunity to expand their current opportunities so that more income accumulation may occur.

- **Access to Credit**

Muhammad Yunus, who is often credited as the modern father of microfinance, once gave $27 to women out of his own pocket because he saw how the cycle of debt affected their work crafting bamboo chairs. Most banks will not extend loans to someone without credit or collateral because of the risks involved in doing so, yet those in poverty do not have any credit or collateral.
By extending microfinance opportunities, people have access to small amounts of credit, which can then stop poverty at a rapid pace.
Yunus has always believed that credit is a fundamental human right. There are certainly some financial institutions which may disagree with his assessment. Yet without credit, it can be difficult, if not impossible for someone in poverty, to pursue an idea that could bring about a giant payday one day. Microfinance makes that pursuit possible.

- **Service for Financial Weak in Society**

In many developing nations, the primary recipient of microloans tends to be women. Up to 95% of some loan products are extended by microfinance institutions are given to women. Those with disabilities, those who are unemployed, and even those who simply beg to meet their basic needs are also recipients of microfinance products that can help them take control of their own lives.
Women are key figures in leadership roles in business, even in the developed world. Catalyst has reported that companies with female board directors are able to obtain returns that are up to 66% better in returns on invested capital and 42% better in terms of sales returns than companies with male board members only.

Women also develop others more frequently when it comes to entrepreneurial roles. This comes from coaching, feedback, or investments. Even in the developed world, women helping women is an economic force that poverty can't stop.

- **Overall Better Loan Repayment for Poor**

When people are empowered, they are more likely to avoid defaulting on a loan. Women are also statistically more likely to repay a loan than men are, which is another reason why women are targeted in the microfinance world. There's also the fact that for many who receive a microloan, it is their only real chance to get themselves out of poverty, so they're not going to mess things up.

Zenger Folkman published a survey regarding ratings of high integrity and honesty in leadership roles that was separated by gender. The mean percentile of women displaying these traits was 55%, while for men, it was just 48%. In business, the bottom line is this: integrity matters. Microfinance institutions have recognized this and approached women because of this.

As a side effect of this approach, many developing countries are taking a new look at what role women should play in society. Instead of treating a woman as a second-class citizen, or the "barefoot in the kitchen and pregnant" attitude that has been prevalent in the past, the success of women in bring their households out of poverty is evidence that proves women not only have an initiative to get things done, but they produce consistent results.

For these reasons, microfinance institutions see total repayment rates of higher than 98%, though there can be several accounts that are overdue at any given time.

- **Opportunities for Education of Poor Children**

Children who are living in poverty are more likely to have missed school days or to not even be enrolled in school at all. This is because the majority of families who live in poverty are working in the agricultural sector. The families need the children to be working and productive so their financial needs can be met. By receiving micro financing products, there is less of a threat of going without funding, and that means more opportunities for children to stay in school.

This is especially important for families with girls. When girls receive just 8 years of a formal education, they are four times less likely to become married young. They are less likely to have a teen pregnancy. In return, this makes girls more likely to finish schooling and then either obtain a fair-paying job or go onto a further educational opportunity.

- **Possibility of Future Investments**

The problem with poverty is that it is a cycle that perpetuates itself. When there is a lack of money, there is a lack of food. When there is a lack of clean water, there is a lack of sanitary living conditions. When people are suffering from malnutrition, they are less likely to work. A lack of sanitation creates the potential of illness that prevents working days.

Microfinance changes this by making more money available. When basic needs are met, families can then invest into better wells, better sanitation, and afford the time it may take to access the health care they need.

As these basic needs are met, it also means that there are fewer interruptions to the routine. People can stay more productive. Kids can stay in school more consistently. Better healthcare can be obtained. This creates a lower average family size because there are more guarantees of survival in place.
And when that happens, the possibility of future investments will occur because there is more confidence in being able to meet basic needs.

- **Sustainable Development Process**

How much risk is there with a $100 loan? Some investors might pay that for a decent dinner somewhere. Yet $100 could be enough for an entrepreneur in a developing country to pull themselves out of poverty. This small level of working capital is sustainable because it's essentially a forgettable amount.

If there is a default on that money, the interest and high repayment rates of other microloans will make up for it. Then repayments are reinvested into communities so that the benefits of microfinance can be continually enhanced. Each repayment becomes the foundation of another potential loan.

This is why many microfinance products have relatively high interest rates. Some institutions may charge the equivalent of a 20% APR, but others have interest rates which exceed 800%. Although interest is high, recipients are invested into making these products work because virtually all institutions put repayments back into new loans that target the most vulnerable households in the developing world.

- **Concentrates on more Job Opportunities**

Microfinance is also able to let entrepreneurs in developing countries be able to create new employment opportunities for others. With more people able to work and earn an income, the rest of the local economy also benefits because there are more revenues available to move through local businesses and service providers.

It's not just the entrepreneurial level that benefits from job creation through microfinance. Grameen Bank in Bangladesh employs over 21,000 people and their primary financial products are related to microfinance. That's tens of thousands of jobs that are created by the industry with the sole purpose of being able to drag people up and out of poverty.

- **Encourages People for Savings**

Microloans are an important component of microfinance, but so is saving money. When people have their basic needs met, the natural inclination is for them to save the leftover earnings for a future emergency. This creates the potential for more investments and ultimately even more income for those who are in the developing world.

Some microfinance institutions have seen an extraordinary number of savings occur when products are extended. The Unit Desai of Bank Rakyat Indonesia counts 28 million savers to just 3 million microloan borrowers.

Now saving isn't always seen, especially from borrowers, but this is part of the expected microfinance process. Small loans make small financial improvements for households living in poverty. The difference between making $1.90 per day and $2.30 per day is not much in reality, but by definition, that amount takes someone out of extreme poverty.

Instead of big improvements, microfinance allows for small improvements. When enough of those improvements occur, then there is a safe place for people to store their income thanks to this industry.

- **Reduces Stress**

There is a valid argument to be made that some microloans go to cover household expenses instead of business needs. Some are using these loans to pay bills or purchase food. It's true. Yet without this product available, there wouldn't be an ability to pay bills or purchase food. So even though it may not always be used for business purposes, it still serves a purpose by reducing stress.
Stress cannot be underestimated when it comes to poverty. Even in the developing world, the stresses of poverty can be overwhelming. It causes people to seek out coping mechanisms that are not always healthy. And, in some cases, it may even cause families to break apart.
Sometimes childbirth is a coping mechanism for poverty simply because an extra set of hands means an extra chance for income. By reducing these stress markers, households can focus on the job at hand to provide for themselves, even if that means net income levels for that family may not rise in the near future.

- **Makes People Happy**

The feeling of receiving a credit product for the first time cannot be ignored. It's a feeling like you've made it. That you really are somebody because you've been trusted with credit. This feeling applies to everyone, even in the developed world. When a person feels like they matter, it changes who they are at a core level. Instead of focusing on how they can just survive, then begin to look for ways to thrive.

This brings us back to the stress that poverty creates on people. People, when they are approved for a microloan for the first time, will often have a reaction that is similar to Steve Martin's reaction in The Jerk when he discovered his name in the phone book.

And this is why Yunus feels that credit is a fundamental right. Without credit, survival is often the best possible outcome. With credit, there is hope that anything can be possible.

- **Offers Significant Economic Gains**

The gains from participation in a microfinance program including access to better nutrition, higher levels of consumption, and consumption smoothing. There is also an immeasurable effect which occurs when women are empowered to do something in their society when they might not normally be allowed to do so. As spending occurs, these benefits also extend outward to those who may not be participating in the program so that the entire community benefits.

The most important weakness of microfinance is that the effects of raising income levels for the poor can often be questionable. Although it raises the possibility of income accumulation and savings, microfinance products also raise the possibility of creating a further indebtedness that may potentially extend the cycles of poverty for an infinite period of time.

Although some may look at consumption in a negative view, those who have gone without for so long will see improved consumption as a sign that things are getting better. Consumption smoothing allows an entire community to realize the benefits that microfinance can provide.

It isn't always about the money. Sometimes economic success comes from stability.

Yet if you were to ask the average person who was the recipient of a microloan how they felt about the experience, you would be told that they were happy the loan was available. This happiness is reflected in the high repayment rates that are almost always seen in programs offered within developing countries. That in itself shows that the benefits of microfinance, at a core level, are almost always leaving a positive effect.

VIII. MICROFINANCE IN WEST BENGAL

Microfinance revolution in West Bengal started comparatively later than the other parts of the country. Along with other channels of microfinance, MFIs (Microfinance Institutions) contribute a significant share in the microfinance sector of West Bengal. There are 41MFIs working in West Bengals on 31st March 2017 *[as per Sa-Dhan Report and AMFI-WBReport]*.

Bandhan, the MFI based on Konnagar, West Bengal has ranked second in the Forbes Ranking among the top 500 MFIs of the World in 2007. Besides this, the leading MFIs like SKS Microfinance Ltd., Ujjivan Financial Services Private Ltd., K A S Foundation, Janakalyan have started operating in West Bengal along with some others small and medium MFIs. Apart from these organisations, there are several Self Help Groups (SHGs) linked under SHG Bank Linkage Program me (SBLP) to banks for saving and credit services.

The total number of SHGs under SBLP are 788,448 along with total savings -client outreach of Rs. 46674.40 lakh as on 31st March 2017. Under SBLP, 33 Banks are providing microfinance services of which 17 are Public Sector Commercial Banks, 3 are Regional Rural Banks(RRBs) and 13 are District Central Co-operative Banks (DCCBs).

In 2012 36,93,785 poor members are getting financial services through MFIs working in the state and 53,61,188 members are getting financial services through SBLP and the total portfolio outstanding is Rs.454492.75 lakh of which the contribution of MFIs is Rs.297489.38 lakh and of SHGs is Rs. 157003.37 lakh (31st March 2012). Paschim Banga Gramin Bank has given thrust on rural credit / microfinance.

At present (2016-2017) we are having 52916 nos. savings linked SHGs, out of which 39731 nos. are credit linked. From the above position it is very clear that a large number of SHG cases are likely to be credit linked in this financial year 2016-17.

Name of MFIs (Microfinance Institutions) operating in West Bengal (District–wise) as on 31st March 2017 *[Sa-Dhan Report,2017]*

Name of District	No. of MFIs	Name of MFIs

Alipurduar	5	RGVN, Jagaran, Village, Asirvad, BJS
Bankura	8	Sahara Utsarga, Satin, Village, ASA, Altura, Arohan, Basix, BFIL
Bardhaman	16	Vedika, Jagaran, Satin, SMGBK, Village, ASA, Asirvad, Altura, Barasat Sampark, Arohan, Basix, BFIL, KDS, Sarala, Sreema, Ut-trayanB
Birbhum	9	Sahara Utsarga, Satin, Village, ASA, Asirvad, Arohan, BFIL,KDS, Uttrayan
Cooch Behar	6	Jagaran, Village, ASA, Asirvad, BJS, SaralaDakshin Dina-jpur9Jagaran, Seba Rahara, SMGBK, Village, ASA, Asirvad, BFIL, Des-tiny, KDS
Darjeeling	8	Satin, Village, ASA, Asirvad, BJS, BFIL, KDS, Sarala
Hooghly	13	Vedika, Sahara Utsarga, Satin, Village, ASA, Asirvad, Agradut Polly, Barasat Sampark, Arohan,BFIL, KDS, Sarala, Uttrayan
Howrah	13	Vedika, Sahara Utsarga, Satin, Village, ASA, Asirvad, Agradut Polly, Arohan, BFIL, DBIS, KDS, Sarala, STEP
Jalpaiguri	10	RGVN, Jagaran, Satin, Village, ASA, Asirvad, BJS, BFIL, KDS, Sarala
Kolkata	15	Vedika, Jagaran, Sahara Utsarga, Village, ASA, Asirvad, Arohan, BURS, BFIL, DBIS, KDS, Sarala, BWWA, STEP, Nabfins
Jhargram	1	Village
Malda	8	Jagaran, Village, ASA, BFIL, Destiny, KDS, Sarala, Uttrayan
Medinapore (Purba)	7	Jagaran, Village, ASA, Asirvad, Arohan, KDS, Sarala
Medinapore (West)	5	Jagaran, Asirvad, Village, Arohan, BFIL
Murshidabad	11	Jagaran, Sahara Utsarga, Village, ASA, BJS, Arohan, BFIL, KDS, Sarala, Sreema, Uttrayan
Nadia	16	Vedika, Jagaran, Sahara Utsarga, Satin, SMGBK, Srija, Village, ASA, Asirvad, Barasat Sampark, Arohan, BFIL, KDS, Sarala, Sreema, Uttrayan
North 24 Parganas	21	Vedika, Jagaran, Sahara Utsarga, Seba Rahara, Village, ASA, Asirvad, Barasat Sampark, BJS, Arohan, BURS, BFIL, DBIS, KDS, Barasat Unnayan, BGS, Sarala, Sreema, Uttrayan, Sserial, STEP
Purulia	4	Village, Asirvad, Agradut Polly, Basix
South 24 Parganas	19	Vedika, Jagaran, Sahara Utsarga, UNACCO, Village, ASA, Asirvad, Arohan, BRWAS, BFIL, DBIS, DCBS, KDS, Swayamsampurna, Sarala, VSSU, Uttrayan, BWWA, SSVWS
Uttar Dinajpur	10	Jagaran, Seba Rahara, SMGBK, Srija, Village, BFIL, DCBS, Destiny, KDS, Uttrayan

Microfinance Institutions in West Bengal – A Snapshot-as on 2017
[Sa-dhan Report, 2017]

No. of MFIs operating in the West Bengal (including those having Head Quarters outside)	41
No. of districts of the state where MFIs operate	21
No. of Branches	1097
Outreach (in lakh) of MFIs across State	21.16
Loan Portfolio Outstanding Across State	3140 Cr.
Loan Disbursement Across State	4610 Cr.
No of Borrowers	38,65,258
On time Repayment Rate	98% (approx)

Role of Some of the major Microfinance Institutions operated for Upliftment in Rural Bengal

Agradut Polly Unnayan Samity	Agradut Polly Unnayan Samity was registered as a Society in the year 1984 in Howrah District.	The main activities of this society are animal husbandry, dairy & fisheries, agriculture, child development, disaster management, drinking water, education & literacy, environment & forests, and microfinance. It offers training for capacity building, education & literacy for the Self Help Group members.
Arohan Financial Services Ltd.	Arohan was established in 2005 and started operations in January 2006 in Kolkata, with the aim of catering to the credit needs of the under-served urban population of Eastern India. Arohan's early operations were restricted to Kolkata and its surrounding semi-urban areas. Presently Arohan is present in West Bengal, Jharkhand, Bihar, Chattisgarh, Assam, Odisha and Meghalaya. It also aims to further expand to Tripura, Uttar Pradesh and Madhya Pradesh.	Arohan has a fair outreach to the financially (credit) excluded and moderate outreach to the poor. The mission of Arohan is to improve the quality of life of the socio-economically disadvantaged in a sustainable manner through the provision of a wide range of financial services and other support services. The vision of Arohan is to be a leading global contributor to a world where the full range of financial services is available to every poor citizen thereby transforming lives.

Bandhan Financial Services Private Ltd (BFSPL)	Bandhan, the Non-Banking Financial Institution (NBFC)-MFI based on Kolkata has ranked second in the Forbes ranking among the top 500 MFIs in the world in 2007 and has been conferred the Micro Finance India Award, 2009 under the category of „Institution of the Year" by ACCESS Development Services and HSBC.	The Mission of BFSPL is to reduce the economic and social poverty significantly through providing client focused, quality, cost effective and sustainable financial services.
Bharat Integrated Social Welfare Agency (BISWA)	Bharat Integrated Social Welfare Agency (BISWA) was registered as a society in 1994 and is one of the largest NGO-MFI operating in Orissa. BISWA is involved in a number of developmental projects besides microfinance as part of its philosophy of integrated development. BISWA is currently working with more than 8 lakh members organized in 48,927 SHGs in 14 states of India with a portfolio of Rs. 275 crore.	BISWA has five pillars programme including social development, microfinance, micro insurance, micro-enterprise and micro-marketing. These pillars symbolize its integrated approach towards development, using SHGs as the platform for various interventions. BISWA has been undertaking various developmental programmes in segments like watershed development, sanitation, education, health, environment, and awareness creation on social issues among rural communities.
Dibakar (An Organisation - Hope for needy poor people)	Dibakar (An Organisation - Hope for needy poor people) started its journey as a registered Society in the year 2007 in Dewanhat of Cooch-Behar district.	The major concern of Dibakar are social service, technical education, health service, blood donation camp, tree plantation, eye checking, SHG awareness programme (NABARD), SHG leadership programme (NABARD), skill up gradation training programme.
Kalighat Society for Development Facilitation (KSDF)	Kalighat Society for Development Facilitation (KSDF) was formed in July 2001 by registering as Society	Apart from the traditional approach of development, the organization formulated comprehensive plan of action to eradicate poverty in one hand and in other hand to support activities like vocational training, skill development training, entrepreneurship development training etc. The organisation had started to educate the women and the family members to take interest in child development aspect. In 2008, the organisation has emerged as a leading development especially for microfinance programme. To fulfil the aspiration of social security KSDF used to provide micro insurance services for life and health after collaborating with LICI, ICICI and Lombard.
Janakalyan	Janakalyan commenced operations in March, 2017 as an NBFC-MFI.	The organization's mission is to build a world class financial institution committed to economic upliftment of the under-privileged through financial inclusion and its vision is to improve the standards of living of millions of Indians engaged in micro, small and medium enterprises across the country through a wide range of financial services, in a sustainable and transparent manner based on mutual respect and understanding.
Uttrayan	Uttrayan Financial Services Private Limited is a Non Banking Financial Company (NBFC-MFI) registered under Reserve Bank of India(RBI). We started our microfinance on-lending operation way back in the year 2001 with its head office at Kolkata(West Bengal), by providing small ticket size loan to the poor woman in rural and semi-urban area through group based system. Our Company provides livelihood promotion services comprising of livelihood and other Micro financial services to those population segments which are mostly un-reached by the formal banking systems with the principal purpose of promoting sustainable livelihoods.	The mission is providing cost effective financial services and integrated community development, for the economic and social empowerment of women leading to better livelihood opportunities. Motive of the organization is to spread in West Bengal and neighbouring states through different financial and development activities with 1000000 outreach by 2025.
Sarala Development and	Sarala Development and Microfinance Pvt. Ltd., (Sarala) is a Non-Bank Finance Company (NBFC) licensed by the Reserve Bank of India as a NBFC-	This organization is to catalyze empowerment of sustainable women micro-entrepreneurship in under-privileged families across India by providing much

Microfinance Pvt. Ltd., (Sarala)	MFI. Sarala provides Microfinance solely to women in Eastern India. Sarala differentiates itself with its acknowledged track record of combining Microfinance and Renewable Energy options for its borrowers. Sarala is formed as a Not for Profit organization in 2006. All assets and liabilities of Unnati now with renamed company Sarala in 2017.	needed access to capital. Their vision is to be a world class Microfinance Organization that delivers measurable social impact by building sustained trusting relationships with our clients, employees and financial partners.
Sreema Mahila Samity (SMS)	Sreema Mahila Samity (SMS) is an organization based in the Nadia district, West Bengal, had started journey way back in 1972.	SMS, the Society-MFI is providing micro-finance, health and general welfare activities for improving the quality of life of the community. 50% of branch managers of SMS are women taking all branches together with about 85% female staff.
Ujjivan Financial Services Pvt. Ltd.	Ujjivan is a Microfinance Institution serving the economically active poor in urban and semi-urban areas. It is a Non-Banking Financial Company holding a valid Certificate of Registration methodology of selecting, training, selling & servicing customers from 2005. Ujjivan has its headquarters in Bangalore, with regional offices in New Delhi, Kolkata & Pune. It has 351 branches and 4009 employees in twenty states and union territories across India.	The mission of Ujjivan is to provide financial services to the economically active poor, to help alleviate poverty. The goals of Ujjivan are to provide full range of financial services required by the customers and to build an institution which is best in class in all aspects: customer service, innovation, efficiency, work place engagement, leadership, governance and reputation. Ujjivan follows a holistically approach poverty reduction, in partnership with Parinaam Foundation, through social welfare; healthcare, education, vocational training, community development, shelter, and disaster relief, to enable customers lead a "better life".
Village Financial Services Pvt. Ltd.	Village Financial Services Private Limited (VFSPL) has started microfinance operations in the financial year 2005-2006.	The mission of VFSPL is to strengthen the socio-economic condition of the society by providing financial and other support services mainly to the poor women in a sustainable manner and strive to yield a competitive return. VFSPL is providing mainly two types of loan products i.e. Pragati and Samriddhi. VFSPL is operating in two states named West Bengal and Bihar through 96 branches of 22 different districts.

IX. THREATS OR CHALLENGES OF MICROFINANCE IN RURAL AREAS

The following are some of the major challenges/threats faced by MFIs in providing microfinance services in rural areas.

- **Higher Interest Rate:**
  MFIs are charging very high interest which the poor find difficult to pay.

- **Retention of Clients**
  Client retention is an issue that creates a problem in growing the MFIs. There is about 28% client retention in the MFIs.

- **Loan Default**
  Loan default is an issue that creates a problem in growth and expansion of the organization because around 73% loan default is identified in MFIs.

- **Very Low Education Level**
  The level of education of the clients is low in rural areas. So it creates a problem in the growth and expansion of the organization because its percentage is around 70% in MFIs.

- **Language Barrier:** Language barrier makes communication with the clients (verbal and written) is an issue that creates a problem in growth and expansion of the organization because around 54% language barrier has been identified in MFIs.

- **Late Payments**
  Late payments are an issue that creates a problem in growth and expansion of the organization because late payments are around 70% in MFIs.

- **Geographic Factors**

The Geographic factors make it difficult to communicate with clients of remote areas which create a problem in growth and expansion of the organization. MFIs are basically aimed to facilitate the BPL population of the country but due to lack of infrastructure in those areas it becomes difficult to reach them.

- **Debt Management**
  Clients are uneducated about debt management in most of the cases. 70% of the clients in MFIs are unaware of the fact that how to manage their debt.

- **Others**
  Other challenges faced by the microfinance institutes in rural areas are:

  - ✓ lack of funds to meet requirements
  - ✓ too much of travel to receive funds back
  - ✓ lack of proper knowledge for the loan takers
  - ✓ documentation methods are not so appropriate
  - ✓ employee attrition
  - ✓ lack of proper hr policies
  - ✓ employee false claims etc.

X. MEASURES TO OVERCOME CHALLENGES

The following are some measures to overcome the challenges faced by MFIs in providing microfinance services to have a sustainable development.

- **Proper Regulation**

When the microfinance was in its nascent stage and individual institutions were free to bring in innovative operational models, the need for a regulatory environment was not a big concern. However, as the sector completes almost two decades of age with a high growth trajectory, an enabling regulatory environment is needed that protects interest of stakeholders as well as promotes growth.

- **Field Supervision**

In addition to proper regulation of the microfinance sector, field visits can be adopted as a medium for monitoring the conditions on ground and initiating corrective action if needed. This will keep an eye on the performance of ground staff of various MFIs and their recovery practices. This will also encourage MFIs to abide by proper code of conduct and work more efficiently. However, the problem of feasibility and cost involved in physical monitoring of this vast sector remains an issue in this regard.

- **Encourage Rural Penetration**

It has been seen that instead of reducing the initial cost, MFIs are opening their branches in places which already have a few MFIs operating. Encouraging MFIs for opening new branches in areas of low microfinance penetration by providing financial assistance will increase the outreach of the microfinance in the state and check multiple lending. This will also increase rural penetration of microfinance in the state.

- **Complete Range of Products**

MFIs should provide complete range of products including credit, savings, remittance, financial advice and also non-financial services like training and support. As MFIs are acting as a substitute to banks in areas where people don't have access to banks, providing a complete range of products will enable the poor to avail all services.

- **Transparency of Interest Rates**

As it has been observed that, MFIs are employing different patterns of charging interest rates and a few are also charging additional charges and interest free deposits (a part of the loan amount is kept as deposit on which no interest is paid). All this make the pricing very confusing and hence the borrower feels incompetent in terms of bargaining power. So a common practice for charging interest should be followed by all MFIs so that it makes the sector more competitive and the beneficiary gets the freedom to compare different financial products before buying.

- **Technology to Reduce Operating Cost**

MFIs should use new technologies and IT tools & applications to reduce their operating costs. Microfinance institutions should be encouraged to adopt cost-cutting measures to reduce their operating costs. Also initiatives like development of common MIS and other software for all MFIs can be taken to make the operation more transparent and efficient.

- **Alternative sources of Fund**

In absence of adequate funds the growth and the reach of MFIs become restricted and to overcome this problem MFIs should look for other sources for funding their loan portfolio. Various alternative sources of fund for the MFIs may be by getting converted to for-profit company i.e. NBFC, Portfolio Buyout, and Securitization of Loans etc.

XI. CONCLUSION

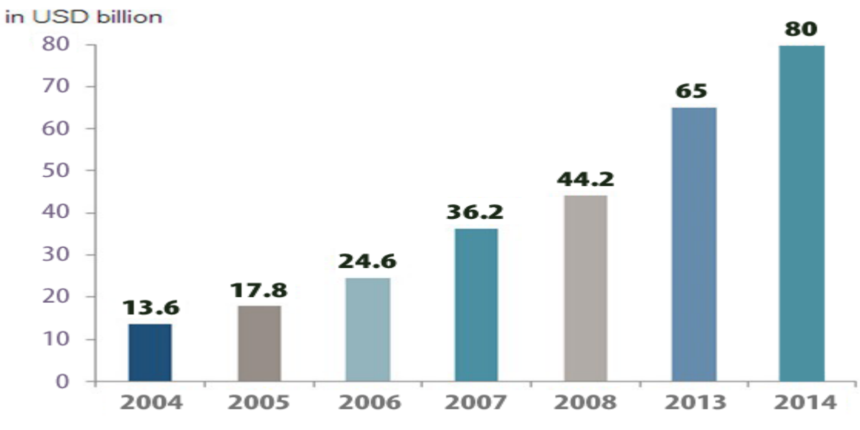
Till the 90's large section of the rural population was unbanked and austerely overlooked by the mainstream banking institutions. Most of them had to take recourse to informal sources for credit because as compared to formal sources, the informal sources have highly flexible terms and it is easy to obtain loans for consumption needs and also for marriage and other purposes. With least documentation and accessibility as well as availability at any time, the village money lenders are the last resort to many rural people whose needs are emergent and they don't hesitate to agree to pay exorbitant interest rates during the hour of crisis without realising the deleterious consequences that will follow at a later date like coercive recovery and taking over of the productive assets thereby throwing them into abyss of poverty. Despite the relentless efforts of Government of India and RBI in creating and supporting enabling environment for increasing the outreach of formal financial services to cover the marginalised population, informal sector continued to rule the roost till quite some time.

The major cause was the information asymmetry that plagued the formal banking system vis-à-vis the village money lender. What was needed was to break the monopoly of door-step availability of credit by the informal sources at the time of crisis. That's where the Self Help Group concept scored. It combined the flexibility and availability of informal sources with the transparency of institutional credit.

There was a net addition of 6.73 lakh SHGs during the year increasing the number of SHGs having savings linkage to 85.76 lakh as on 31 March 2017. The savings outstanding of SHGs with banks as on 31 March 2017 has reached an all-time high of R16114.22 crore. During the year, banks have disbursed loan of R38781.16 crore, recording 4% increase over the last year despite the impact of demonetization which slowed down loan disbursement post October 2017. The total bank loan outstanding to SHGs also increased by 7.81% and stood at R61581.30 crore against R57,119 crore as on 31 March 2016. The gross NPA of bank loans to SHGs marginally increased by about 5 basis points from 6.45% as on 31 March 2016 to 6.50% as on 31 March 2017. This was achieved in a year when there was overall deterioration in quality of assets and mounting NPAs in the banking sector.

Growth of Microfinance Volume Worldwide

Microfinance experiences a boom. In 2014, the lending volume has reached gargantuan sizes in comparison with 2004. The diagram below shows the data from around 2000 institutions providing financial services. There are actually more than ten thousands microfinance institutions that lead one to think the global volume is even higher.



Recent developments that affected the Microfinance Sector in India

- **Conversion to SFB and Challenges**

To facilitate financial inclusion and banking penetration in India, the RBI granted 10 small finance bank licenses out of which eight are MFIs. The licensing norms mandate lending to customers at the bottom of the pyramid (loan size up to INR 2.5 million have to form at least 50 per cent of the loan book). The entities are also allowed to mobilize deposits and enter into other banking activities.

Further, upon conversion to SFBs, they will not be subjected to the existing spread cap limit of 10% (for NBFC-MFIs). The customers for small loans are not rate-sensitive; they are more driven by service delivery. The SFBs are likely to face numerous challenges in the initial years of banking operations, such as adapting to banking technology, raising retail deposits, adding new branches and training employees. However, given their good track record of operating in the underpenetrated geographies of the country, they can survive the initial operating pain in order to gain from the immense opportunities in the ensuing years.

- **Emergence of Digital Ecosystem**

Technology is expected to play a pivotal role in the segment, given the intense nature of operations. The MFIs will have an additional set of technology proficient competitors such as Fintech-based small-ticket lenders and crowd funding institutions. Usage of e-payments and ATM cards by the microfinance clients for payment and disbursal of loans is making the task of microfinance service providers much easier and this is why they are concentrating majorly on increasing the clientele. The microfinance institutions are also adopting Management Information System (MIS) for managing client data, streamlining their data maintenance. With the use of IT, the MFIs are also trying to simplify the process of lending small loans by making it more cost effective.

- **Geography**

Currently, the microfinance institutions operating under the JLG/SHG hybrid model have a high gross loan portfolio in the southern states of Karnataka, Tamil Nadu, westerns states of Maharashtra and Madhya Pradesh and eastern states of Bihar and Orissa.
Maharashtra has the highest number of MFIs operating under the JLG/ SHG hybrid model (26), followed by Bihar (24) and Uttar Pradesh (19). However, the western and southern regions of Maharashtra are more attractive for the MFIs than central Maharashtra; and owing to this, there is high density of MFIs in the region. Within the state, Northern Maharashtra has the lowest density and growth is expected to come from this region.
While states like Tamil Nadu, Karnataka and Odisha are likely to see high penetration levels of more than 70%, a majority of the states in the rest of the country including key states in the northern and central region like Gujarat, Rajasthan, Maharashtra, Uttar Pradesh etc. which possess a significant potential for MFI growth are expected to remain underpenetrated. This gives a significant headroom and opportunity for MFIs to grow.

XII. REFERENCES

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