



An Analytical Study of Bank Financing to Very Micro Sectors in Bihar

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ABSTRACT

The access of finance to very micro firms (upto Rs Rs 10 Lacs) is strategically very important, considering employment and inclusive development goals of the economy. There are a large number of very micro firms in Bihar state and the banks in the state are not showing enthusiasm to finance them. The share of finance to very micro firms within MSMEs in the state had declined in recent years, although the finance to MSME has increased. While compare to public banks to private banks, the share of finance to very micro firms within MSMEs is high with public bank compare to that of private bank. RBI has given strict guidelines to finance very micro loans without any collateral but still many banks in the state are financing them after taking collateral, although it has improved in FY 2024. Despite the wide range of schemes and institutions, challenges in credit delivery to the very micro sector persist. Issues such as low financial literacy, uneven regional distribution of credit, over-indebtedness and limited post-credit support constrain the effectiveness of these initiatives.

Introduction:

Micro, Small and Medium Sector is backbone of the economy and its contribution to nation's output and employment is very high. Micro sector is a major portion of MSME and its development is very important not only in terms of employment but also in terms of inclusive development and eradication of



poverty. It contributes 99% of total MSMEs. As per latest definition of MSMEs, the firms having investment in plant and machinery upto 2.5 Crores and annual turnover upto 10 Crores is treated as Micro firms. As per MSME pulse reports, the very micro sector is identified as very low investing firms having finance upto Rs 10 Lacs. The number of firms coming under very micro sector is major within micro segments and very important considering self-employment and inclusive development goals. A large portion of very micro sectors belongs to social weaker sections SC, ST and OBCs and thus its development is strategically very important.

There are various credit schemes available with financial institutions to finance very micro sectors. It includes Pradhan Mantri Mudra Yojana (PMMY), PM-Svanidhi Yojana, PM- Vishwakarma Yojna, Bank-SHG Linkage finance scheme, Pradhan Mantri Employment Guarantee Program (PMEGP) and various state and central government credit schemes. The credit penetration in this sector is still very low and not matched with the credit demand of this sector. Thus, there is a need of appropriate measures to be taken to uplift finance to this segment of MSMEs. Reserve Bank of India has given strict guidelines to commercial banks and NBFCs to finance very micro loans (upto Rs 10 Lacs) fully collateral free, but still many banks are not following this guideline. The collateral free finance, given by banks and NBFCs are guaranteed by credit guarantee schemes CGTMSE and NCGTC. The high penetration of NBFCs and banks in the state, Udyam registration and digital penetration in MSME credit delivery system has improved the affordable finance to very micro segments and now they are getting finance hassle free.

Bihar is a developing state having high segment of MSMEs belongs to micro and very micro segments. The development to ease of finance to them is very crucial for development of this sector. The awareness of the firms regarding various credit schemes and banks sensitisation towards credit to them is very important. Thus appropriate measures must be taken to provide access to affordable and collateral free finance to micro and very micro sectors in the state.

The present study will analyse the status and challenges of very micro sector in access of collateral free credit in Bihar. The content analysis, graphs and tables and percent-wise analysis is done to analyse and represent data. The study has used State Level Bankers' Committee (SLBC) Reports of Bihar of last five years for access and analysis of data. The study has been divided in three segments. The first segment will give various schemes to finance very micro sectors in India and Bihar, the second segment will give the status and trends of very micro loans in banks of the state and the third segment will deal with the various challenges to finance to very micro sectors in the state.



I. The Credit Schemes for Very Micro Sectors in India and Bihar

The very micro sector occupies a foundational position in the Indian economy, particularly within the broader framework of micro, small and medium enterprises. This sector largely consists of informal, household-based and own-account enterprises that operate with minimal capital, limited assets, and a high dependence on daily cash flows. For such enterprises, access to timely and affordable credit is not merely a growth instrument but a crucial requirement for survival and livelihood security. Recognising this reality, India has developed a multi-institutional and multi-scheme credit delivery system specifically oriented towards the very micro segment. A large section of very micro entrepreneurs relied on informal moneylenders, leading to high indebtedness and exploitation. In response, policy interventions over the past two decades have aimed to bring these enterprises into the formal credit network through targeted schemes and regulatory support. A significant portion of lending to this sector is covered under Priority Sector Lending norms, which mandate banks to allocate a specified share of their credit portfolio to micro and small enterprises. This policy approach reflects the developmental importance of the very micro segment rather than a purely commercial perspective.

Among the various schemes introduced, the Pradhan Mantri Mudra Yojana (**PMMY**) represents the most comprehensive and impactful initiative for financing very micro enterprises. Launched in 2015, PMMY provides collateral-free loans up to ₹10 lakh to non-corporate, non-farm enterprises. The scheme is structured into three categories—Shishu, Kishore and Tarun—corresponding to different stages of enterprise development. Shishu loans, which constitute the largest share, cater directly to very micro units by providing small amounts of credit that help meet working capital needs, purchase basic equipment and stabilise income. Another crucial pillar of very micro credit is the Self-Help Group–Bank Linkage Programme, promoted by the National Bank for Agriculture and Rural Development (**NABARD**). This programme uses group-based lending mechanisms to overcome issues of collateral and creditworthiness. By linking savings-led self-help groups, predominantly of women, with banks, the scheme enables access to small loans for livelihood activities such as petty trade, food processing, animal husbandry and home-based manufacturing. The SHG model not only facilitates credit delivery but also promotes financial discipline, social empowerment and collective responsibility, making it particularly effective in rural and semi-urban areas.

Microfinance institutions also play a significant role in extending credit to the very micro sector, especially in regions and segments where formal banking outreach remains limited. Urban very micro



enterprises, particularly street vendors, have been addressed through the Prime Minister Street Vendor’s AtmaNirbhar Nidhi (**PM SVANidhi**). This scheme provides small working capital loans to street vendors to restart and expand their businesses. The scheme highlights a shift in policy focus towards recognising informal urban enterprises as legitimate economic actors. There are other scheme such as PMEGP and Mukhya Mantri Udhyam Yojana etc. are specific government schemes targeting micro and very micro borrowers to finance them without any collaterals. In addition to direct lending schemes, credit guarantee mechanisms have been introduced to encourage banks to lend to very micro units without collateral. This has helped expand credit flow to small borrowers who lack tangible security but possess viable business potential.

In conclusion, credit to the very micro sector in India represents a critical component of the country’s inclusive development strategy. Through schemes like PMMY, SHG-Bank linkage, microfinance and PM SVANidhi, the financial system has made significant strides in reaching the smallest and most vulnerable entrepreneurs. These credit interventions not only support livelihoods and self-employment but also strengthen grassroots economic activity and social empowerment.

II. The Status of Bank Finance to Very Micro Sectors in Bihar

Bihar is a developing state, where large number of informal very micro firms exists and credit to them at affordable rate and hassle free is one on the big challenges of the state. The state has low percentage of finance to very micro firms (< Rs10 Lacs) within MSME category which needs to be improved. The study based on SLBC Bihar state reports reflects that the finance under MSME category has increased very fast after FY 2022 but, the finance under very micro sector is still very low and it is slightly declining after FY 2023. Data reflects that the growth of finance under MSMEs has gone to finance big size firms rather than very micro firms in the state. While MFIs and NBFCs penetration has benefited a large segment of society in the state in micro financing, still commercial banks are not showing enthusiasm to finance the small size loans, as per the credit demand of the sector. While compare to public banks with private banks in the state in financing very micro loans, the public firms are performing better than the private firms in both in no. of accounts and amounts.

Table 1: The Quantum of Finance to Very Micro Loans (<10Lacs) by Public and Private Banks in Bihar

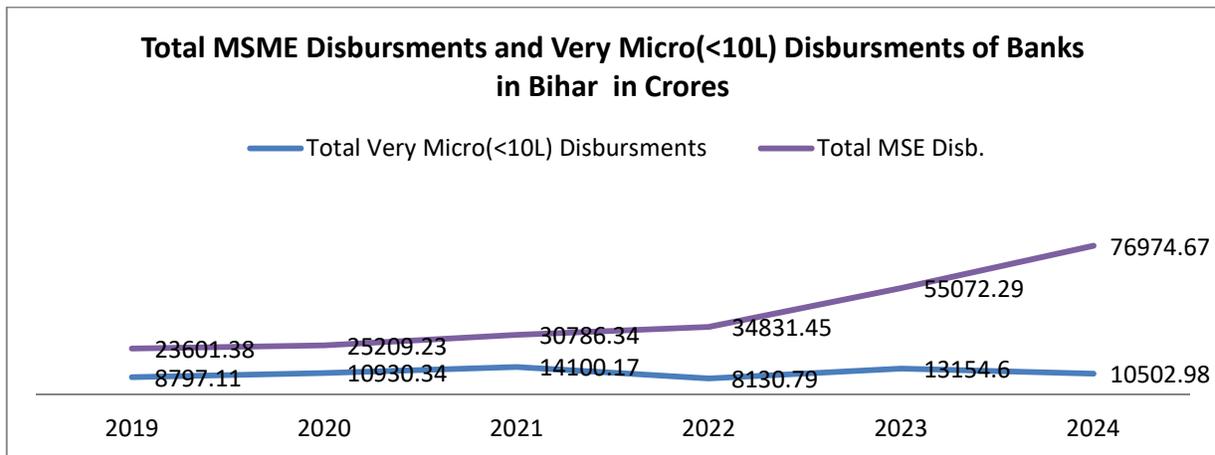
Year	Total	Very	Micro	PSB -	Very	Micro	PVB -	Very	Micro
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	Loan(<10 Lacs) in Cr.	Loan(<10 Lacs) in Cr.	Loan(<10 Lacs)in Cr.
2019	8797.11	6440.15	49.58
2020	10930.34	4786.08	3846
2021	14100.17	5811.24	5802.44
2022	8130.79	3857.28	1157.6
2023	13154.6	8228.49	783.96
2024	10502.98	6736.27	1730.8

(Source: SLBC Reports Bihar)

Figure1: Total MSME Disbursements and Total Very Micro Loans (<Rs10 Lacs) Disbursements by Banks in Bihar



(Source: SLBC Reports Bihar)

While compare to the share of very micro loans to total MSME loans of total, public bank and private banks of the state, we find that it is declined after FY2022 in terms of percentage of total number and amount of very micro loans. The share of very micro loan is declining both for public banks and private banks, but public bank is better in FY 2023 and FY2024 compare to that of private banks of the state. The percentage of total number of very micro loans of public banks remains almost constant throughout the years but it is declining for private banks from FY 2022.

Table2: The Percentage of Very Micro Loans out of Total MSE Loans of Total Banks, Public and Private Banks of Bihar (in No. and Amounts)

	Total	Total	PSB	PSB	PVB	PVB
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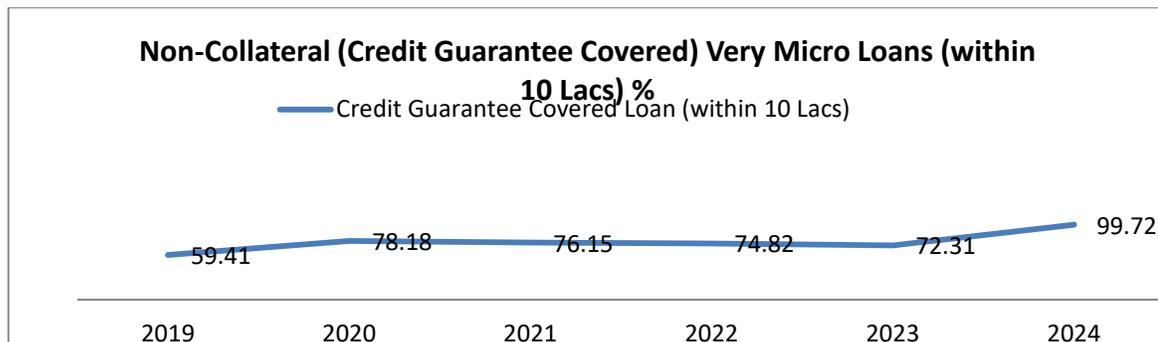


-0	% Micro Loan(<10 L)_No.	% Micro Loan(<10 L)_Amt.	% Micro Loan(<10 L)_No.	% Micro Loan(<10 L)_Amt.	% Micro Loan(<10 L)_No.	% Micro Loan(<10 L)_Amt.
2019	49.99	37.27	80.47	45.13	1.70	0.71
2020	74.79	43.36	49.06	31.89	88.45	51.25
2021	76.25	45.80	40.10	29.49	98.93	67.61
2022	76.37	23.34	38.85	14.51	89.07	22.62
2023	65.41	23.89	37.28	20.54	66.78	7.27
2024	42.68	13.64	37.06	12.17	40.71	9.24

(Source: Author’s Calculation on SLBC Bihar Data)

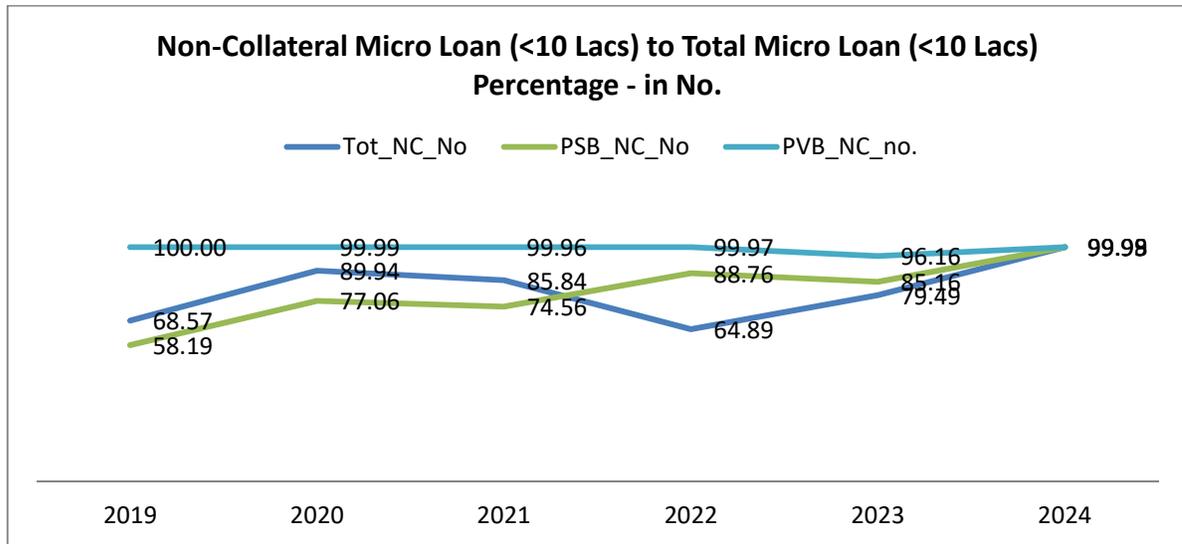
All banks in the state are not fulfilling guidelines of RBI to finance very micro loans 100% collateral free, but the percentage of very micro loans finance under collateral free category has improved in recent years. While total eight banks in the state have not fulfilled this criteria in FY 2023, it is total two banks in FY2024 who have not fulfilled this criteria. The trends of percentage of very micro loans (upto Rs 10 lacs) under collateral free category have improved after FY 2023. While it is 72.3% in FY 2023, it is 99.72% in FY2024. While compare the trends of public banks and private banks in share of collateral free finance to very micro category, we find that it is almost constant and high in private banks and it goes upward trends in public banks. All banks have improved well in collateral free finance to very micro firms in FY2024 the state.

Figure 2: Non- Collateral within Very Micro Loan (Amount) Percentage



(Source: Author’s Calculation on SLBC Bihar Data)

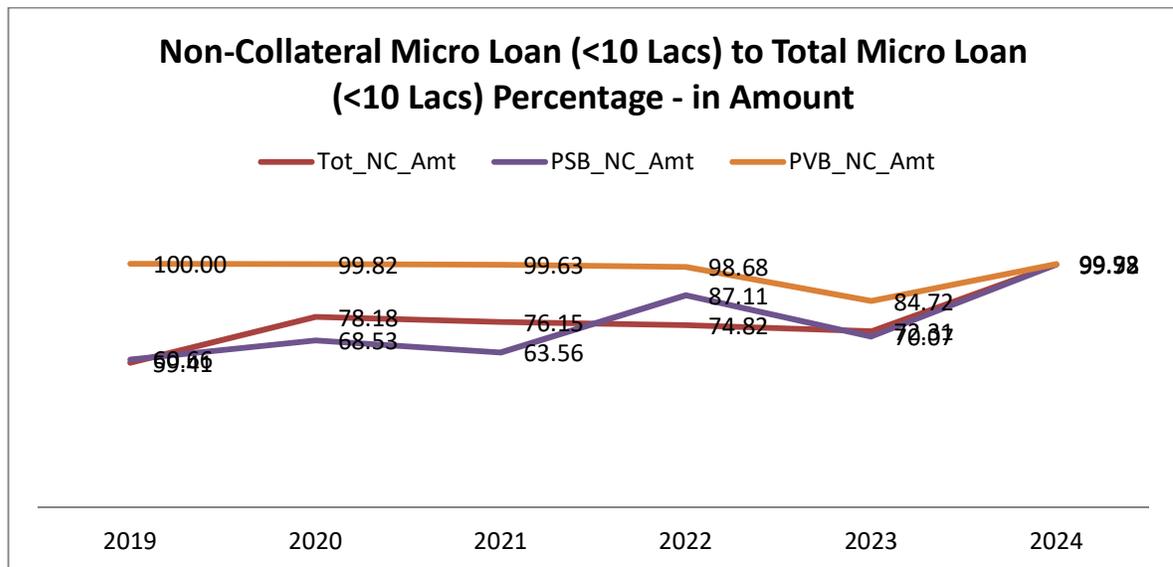
Figure 3: Non-Collateral within Very Micro Loans (in Total No.) Percentage of Public and Private Banks of Bihar



(Source: Author's Calculation on SLBC Bihar Data)

Thus we find that the banks in the state are not performing well in financing very micro loans (<10 Lacs) within MSME segments and it needs to be improved as per the demand of the finance in this category. Since a large no. of informal sector is available in the state and considering the challenges of employment and inclusive development, banks must be sensitized to enhance finance under this category. Since state has high penetration of NBFC and MFI in the state, many small size borrowers are getting finance from them because of ease of access of finance. Banks are still not performing well in this and policy attention must be needed to enhance the finance in the sector. While compliance of 100% collateral free finance under very micro loans (<10 Lacs), the banks in the state has improved and almost all banks in the state are following this guidelines except only two banks P&S Bank and Bandhan Bank, where this is not 100% in FY 2024.

Figure 4: Non-Collateral within Very Micro Loans (in Total Amount) Percentage of Public and Private Banks of Bihar



(Source: Author's Calculation on SLBC Bihar Data)

III. Challenges of Very Micro Sector Finance in Bihar

Despite the wide range of schemes and institutions, challenges in credit delivery to the very micro sector persist. Issues such as low financial literacy, uneven regional distribution of credit, over-indebtedness and limited post-credit support constrain the effectiveness of these initiatives. Moreover, while access to credit has improved, the graduation of very micro enterprises into sustainable and growth-oriented units remains limited, indicating the need for complementary interventions such as skill development, market access and digital integration. Despite large government programs and growing flows of small-ticket lending, Bihar's very micro entrepreneurs confront a cluster of interlinked problems: limited access, poor product fit, regulatory and institutional gaps, regional disparities, and vulnerability to debt traps.

Although national schemes (for example PMMY/MUDRA) have expanded small-ticket lending substantially, Bihar still shows uneven credit penetration across districts and communities. Very micro enterprises in Bihar are frequently unregistered; operate without formal accounts, and lack credit histories — factors that make conventional bank underwriting difficult. Studies on MSME credit in Bihar highlight informality as a persistent barrier to scalable credit delivery. SHG–Bank Linkage and JLG models are a mainstay of microcredit in Bihar because they mitigate collateral constraints. Rapid expansion of micro-lending — from formal MFIs and some informal providers — has created an environment where multiple small loans and high effective interest rates can push vulnerable households into cycles of indebtedness. Many very micro enterprises need flexible, short-term working capital rather than fixed-term asset loans; yet the product catalogues of banks and some schemes are not always aligned



to these cash-flow patterns. Schemes targeted at specific subgroups (e.g., PM SVANidhi for street vendors) help, but scale and local customization remain limited. Credit alone cannot sustain enterprise growth. In Bihar, poor physical infrastructure (roads, storage, market yards), weak supply chains, and limited access to value-added services (cold storage, packaging, market linkages) reduce entrepreneurs' ability to invest credit productively. Where credit is used, its impact is often blunted by these non-financial bottlenecks.

Thus a lot of policy initiatives is needed in the state to uplift finance under very micro category. District-targeted outreach, simplified flow-matched products and strengthening post-credit services is the need of the hour. The transparency in micro-lending and grievance redress mechanism is also needed to prevent predatory practices.

Conclusions:

The development of micro and very micro firms is need of the hour, considering the goal of employment and inclusive development. There are various credit schemes available with bank to finance very micro loans but still banks in Bihar state in not performing well in financing them. The share of credit to very micro firms (< Rs 10 Lacs) within MSMEs has declined in recent years although the credit to MSMEs increased in banks of the state. The public banks is performing better in credit to them, compare to that of private banks in the state. As per RBI guidelines, banks has to finance all very micro loans without any collateral, but still some banks in the state are not fulfilling this guideline, although it is improved in FY 2024 in the state and only two banks are not complying in this guideline. There are various challenges of very micro firms to access to finance by formal sources. It includes low financial literacy, uneven regional distribution of credit, over-indebtedness and limited post-credit support constrain, which needs to be improved considering long term goals of the economy.

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