

Microfinance: A boon for rural industrial growth in Bihar

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ABSTRACT

Bihar is one of the least developed states of India. It has however, shown remarkable growth rate in the past few years and is moving on the path of development. This development has mainly been due to growth of tertiary sector in the state. But continuous growth can be sustained only by the development of industrial sector in Bihar. With a major population residing in rural areas it is imperative that industrial development in rural areas be strengthened. The micro-finance institutions have an important role to play in harnessing savings and providing funds for the growth of this industrial sector. The following article examines the potential of micro-finance in encouraging rural industrial growth in Bihar using various secondary sources of data such as reports of government and non-government bodies, Economic Surveys and other published papers.

1. Introduction

While Bihar has almost 9 percent of the country's population, it remains one of the least urbanised among all Indian states. With 88% of the state's population residing in villages, there is an urgent need to develop mechanisms that create situations of nurturing enterprise in the villages of Bihar.

Microfinance as the name suggests relates to providing finance to the recipients at the smallest or micro level. The scene of institutional finance is dominated by the comparatively agencies providing credit and finance facilities like commercial banks, both public sector and private sector; regional rural banks; cooperative banks and non-banking financial institutions. Many non-government organisations (NGOs) are also involved in providing credit facilities in order to aid the development process of target groups. A micro finance bank generally extends small loans to very poor families to help them start new business or for certain major needs which will help improve their general living condition. (Yadav, 2014). Noticing the gap between demand and supply of loanable funds in the lower strata of Indian society, the National Bank of Agriculture And Rural Development (NABARD), initiated and popularised microfinance in India. It has defined micro-finance as "provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and to improve living standards" (Mishra, 2003).

2. Rural industrial sector in Bihar

It is a widely accepted fact that development any economy, country or state depends on the growth of its industry or manufacturing sector and its services or the tertiary sector. The increasing demand for non-agricultural goods is a clear indicator of growth and also a positive catalyst to *higher*

growth of the enterprise sector i.e. industry and services. The industrial sector in Bihar is small as compared to the national average both in terms of number of industries as well as the size of individual industries, if we consider the large industries. As Bihar is mainly an agricultural state, the industrial growth is expectedly low. But it also provides an incentive to develop the sector as there is latent capacity in the state in terms of resources as well as manpower.

The Sixth Census of Economic Enterprises in Bihar, 2013 has shown that the number of enterprises in rural areas has increased by 43 percent in 8 years from 2005 to 2013, with percentage of employment rising by 54%. According to the Bihar Economic Survey (2016: 131) the increasing trend of hiring workers to run the establishments shows that there is a diversification in the rural economy along with higher entrepreneurial activity and a larger capital base. The growth of micro-finance in the rural areas can be regarded as an attributing factor to this increasing diversification.

Table 1 : Census of Economic Enterprises in Bihar (2005 and 2013) (Rural)
(number in '000')

Variable	2005	2013	percentage increase
No.of enterprises	835	1200	43.7
Agricultural Enterprises	30	77	159.2
Non-agricultural Enterprises	806	1123	39.4
No. of persons employed	1405	2171	54.6
Own account enterprises	751	850	13.2
Enterprises with hired workers	240	350	46.1

Source : Directorate of Economics and Statistics, GOB

Another salient feature of the above table is that the number of non-agricultural enterprises much more than the agricultural es in 2008 and 2013. However, the growth rate of agricultural enterprises is much higher than the non-agricultural units. This shows an increasing capacity building regarding agro-based industries.

Since Bihar product a variety of crops apart from food grains, the agro-based industries like food-processing, sugar, dairy industry, tea etc have a bright future in the state. As regards non-agro-based industry, the important ones are handloom, powerloom, sericulture, jute, leather and khadi and village industries. Most of these industries can flourish in the rural areas of the state enhancing employment and incomes of the villages of Bihar. The Bihar 'Industrial Investment Promotion Policy, 2016' aims to achieve annual growth rate of around 15% for the industrial sector. For achieving this target the policy has identified 10 priority sectors namely,— (i) food processing, (ii) Tourism, (iii) small machine manufacturing, (iv) IT, ITeS, electrical and electronic hardware manufacturing, (v) textile, (vi) plastic and rubber, (vii) renewable energy, (viii) healthcare, (ix) leather, and (x) technical education. While the state government has announced a number of schemes to promote the industrial sector of the state, the fact remains that industrial development is greatly dependent on the liquidity available with entrepreneurs. The easy credit provided by MFIs becomes indispensable as the poor classes can hardly avail the expensive credit from banks and other sources.

3. Banking infrastructure in Bihar

As of March 2016, there were 6661 branches of commercial banks in Bihar, of which only 55 percent were located in rural areas. The State Level Bankers Committee has highlighted that growth in number of banks had also fallen to 5.8% compared to 6.6% in 2014-15 and 12.1% in 2013-14. (bihar economic Survey, 2016-17: 238). More importantly the private non-nationalised banks had only 20 rural branches while there were 281 urban and semi-urban branches. This clearly neglects the objective of financial inclusion. The scarcity or unwillingness of commercial banks to open branches in rural areas meant that a huge proportion of the state's population was not being served by the financial sector. Also, the villages of Bihar are home to the more underprivileged sections of society. These people are backward socially and economically. The lack of modern banking system leaves them at the mercy of money-lenders or *mahajans*. Even if the poor want to come out of poverty through their own enterprise, they are often unable to do so due to lack of funds and absence of easy and small credit.

4. Micro-finance in Bihar

Microfinance has proved to be an excellent mechanism for attacking poverty by strengthening the credit support for poor people. Its applicability in Bihar arises from this very property. It is regarded as a *potent alternative* to the various

other institutional sources for alleviating poverty in the state through *affordable, timely and adequate credit and other financial services for the poor people*. (Bihar Economic Survey, 2016-17:259, italics author). The Self-Help Groups (SHGs) and the SHG- Bank Linkage Programme (SHG-BLP) with active participation of the Scheduled commercial banks, Regional Rural Banks and Cooperative Banks, are playing an important role in providing micro-credit facilities in Bihar. Bihar had 279000 SHGs with bank linkages in 2015-16 with savings of Rs 360 crore and bank loans to SHGs disbursed to the tune of Rs 611 crore in that year. (NABARD, 2015-16). The Bihar economic Survey has pointed out that more than 36 lakh rural households were covered by savings linked SHGs in 2016. The average saving per SHG in Bihar was around Rs 12000 while average bank loan per SHG was Rs 62 thousand. Both these values are much below the national average showing the underdevelopment of the state especially its rural sector.

Rural development and industrial development are regarded as responsibilities NABARD and SIDBI in India. These two apex organisations provide umbrella support to numerous agencies at the state, district and local level to ensure economic development. Recognising the absence of last mile banking services to poor in both real and urban areas, the Reserve Bank of India, NABARD and SIDBI promoted the expansion of micro-finance institutions (MFI) in the country. The two most popular models of MFI are self-help groups (SHG) and the SHG- Bank Linkage Programme (SHG-BLP). An important role is played by non-government organisations (NGO) in the development of SHG. This is done either directly by the NGO-MFI lending to poor borrowers or indirectly when the NGO promotes SHGs which then provide credit to their members either through funds received from banks or through funds collected by members (Singh, 2011).

5. Advantages of microfinance institutions in Bihar

Micro-finance institutions are considered a s most suitable for socio-economic development of poor sections of society. The first and foremost advantage is that the MFIs help in collecting small savings of the group. The collected amount is more substantial than individual savings and is then provided as loan to interested members. This encourages capacity building in the specific population group aiding the development process. Further, the activities of MFI create opportunities of education and financial literacy among the people. People are in a better position to understand the changes taking place around them and take steps for their personal and societal development. MFIs provide poor people a chance to take up alternative employment through livelihood opportunities that are quite different from their traditional roles in society. In caste-ridden Bihar, this is a major achievement that can help ameliorate the conditions of neglected state of society. Earlier government schemes did not provide ample training to the recipients hence the projects had low success rate. In contrast MFIs encourage proper training and

development facilities so the recipients are more aware of investments and use funds productively instead of squandering on conspicuous consumption. This has helped make them financially independent.

Compared to other formal institutions, the micro-finance institutions have certain advantages which have popularised their growth. Most importantly, the MFIs provide easy accessibility at the door-step of the users. Since the people are in their home environment they have greater confidence in themselves. These institutions are comparatively hassle-free requiring little or no paperwork. This encourages poor people in accessing much needed funds in an easy way. People from rural areas tend to prefer MFIs over other institutional sources as these institutions provide short-term loans in lesser time.

6. Problems of MFIs

The main problems faced by micro finance institutions in Bihar relate to the non availability of skilled labour in the stated to migratory tendencies and the high level of drop-out rates or attrition. Another problem is the lower coverage provided by institutions to end money to rural poor. Many activities are not covered by existing MFI rules. Lack of entrepreneurial spirit and risk taking causes MFIs to draw back from expanding their loan portfolio.

Even when the MFIs provided loans to people, different kinds of problems arose which prevented growth of micro-finance in the state. Some of these are :

- (i) The loans taken by rural people are often used for unproductive consumption instead of being used productively. This flagrant wastage then creates repayment problems for the borrowers.
- (ii) There is lack of proper documentation of funding and a belligerent lack of accountability
- (iii) most of the institutions are not regulated. This leads to deployment of funds towards unorganised funding.
- (iv) Lack of information among people regarding the objectives of micro lending causes false perceptions in the minds of the borrowers.

7. Conclusion

The report of the Institute for Human Development has pointed out that institutional credit is often associated with

investment and productions is income enhancing while traditional debt being related to personal consumption is more impoverishing. The report has also highlighted that indebtedness in Bihar exhibited caste and community specific patterns(2013: 48). This means that the weaker and vulnerable sections of society are still unable to access institutional loan facilities creating opportunities for their exploitation. This exploitation of poor can be stopped only when they are made financially secure. The role of Micro-finance institutions becomes important in this respect. Since Bihar is as yet industrially underdeveloped, there is a lot of potential in the state or developing this sector. The development of rural Bihar is directly dependent on industrial development in the region. A judicious disbursement of micro-credit will go a long way in easing the rural industrial development.

To avoid over-indebtedness and to ensure sustained and responsible growth, the MFI should strictly follow regulatory guidelines laid down by RBI and other nodal agencies. Women are found to be more responsible borrowers with greater success rate of loan servicing. Therefore, efforts should be made to encourage women SHGs. This will not only ensure that the loans forwarded by MFI do not turn into non-performing assets (NPA). But will also help in empowering women thus meeting the gender parity objective of development. To ensure a more balanced regional growth the MFI should be incentivised to expand to areas with little or no MFI presence (PSIG, 2015).

Poverty alleviation and reduction of inequalities in society is a pre-condition for growth and development of any society. Most poor people do manage to collect resources for running their own enterprise, But this process takes a lot of time. Provision of financial services tailored to meet their needs of small and timely amounts of loan can help them tide over difficult situations and provide a cushion against sudden changes in the business environment. This is an aspect that micro-finance can squarely meet abetting the development of real industrial growth in Bihar.

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