

# Role of Microfinance and the Economy of Bihar

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## ABSTRACT

*Microfinance refers to small savings, credit and insurance services extended to socially and economically disadvantaged segments of society. Microfinance provides financial products and services to masses especially underprivileged and disadvantaged people at an affordable terms and conditions. Over the years it has emerged as a powerful tool for financial inclusion in India. Financial inclusion is a new paradigm of economic growth that plays major role in driving away poverty from state like Bihar. Financial inclusion is the top priority of any developing or backward state like Bihar in terms of economic growth and advancement of society. It enables to reduce the gap between rich and poor people. Presence of sound financial system is a symbol of the robust pillar of growth, economic prosperity and overall development of any economy. The present study aims to examine the impact of microfinance on growth of the state economy over a period of ten years. Secondary data has been used which has been analyzed by multiple regression model as a main statistical tool. Results of the study found negative and insignificant impact of total client outreach and credit growth of microfinance on the GSDP of the Bihar, whereas Total savings growth was found to have positive and significant impact on the GSDP of Bihar.*

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## 1. Introduction

So, to make microfinance impact visible on the state economy all suggestion previously recommended by NABARD should be taken as well as proper regulation should be brought to give other forms of MFIs like NGOs, Trust, Societies ( except NBFCs) a greater role to play. It will also be interesting to see the role of small payment banks and small finance banks in the growth of microfinance in the state like Bihar.

Poverty is a common phenomenon across the world; every country has to face the poverty. It is the condition in which low-income people cannot meet quality of life. Due to poverty, poor people suffers from malnutrition, diseases, child and maternal mortality, low life expectancy, low per capita income, poor quality housing, inadequate clothing, unemployment and rural-urban migration. About 1.4 billion population in developing countries is living less than US \$ 1.25 a day according to World Bank report. Over the years, most of the countries have been pursuing various policies and programs to eradicate poverty and provide equal opportunities to these financially excluded people for inclusive growth. Several developmental policies around the world have been working since last 40 years to reduce this level of poverty globally. . In 1983, a 43 year old man from South Asia pioneered one of the most unique developmental policies. This policy was called microfinance. In India, Microfinance has been defined by The National Microfinance Taskforce, 1999 as "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". Previously, microfinance was known as rural finance or informal finance. Microfinance plays an important role in fighting the multi-dimensional aspects of poverty. Microfinance distinctly differs from other populist poverty alleviation schemes. Microfinance is an innovation for the developing countries. It provides self-employment opportunity for poor people who are unemployed, entrepreneurs and farmers who are not bankable because of the lack of collateral, very low

level of income. It involves building of financial sub-system which serves the poor and its architecture could be easily integrated into the financial system of the nation. In other words, by mobilizing, the poor, especially the women, organising them into groups, building their capacity for self management at the grass roots and enabling them to deliver and access a wide range of services including credit, savings, insurance and business development, Microfinance programmes have unleashed the hitherto hidden and untapped potential of the poorest.

## 2. Role of Microfinance

The U.N. Report defines an inclusive financial system as one which provides credit to all "bankable" individuals and firms; insurance to all insurable individuals and firms; savings and payment services for everyone. Financial Inclusion is defined as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at affordable cost" (Rangarajan, 2008) " Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of society including vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players" (Chakraborty, 2013). Financial inclusion is not an Indian specific problem, it is global one. All around the countries, there are population groups that are not adequately serviced by the formal financial system. India is a home to the second largest population in the world, with huge mass of people below poverty line spread across 600,000 villages in 640 Districts. So, for India it is a matter of utmost importance. The process of financial inclusion is an attempt to bring within the ambit of the organized financial system the weaker and vulnerable sections of society. Financial inclusion is the most important initiative of Govt. of India. The financial inclusion has been pursued over the decade through number of policy and programmes, such as

preparation of annual Financial Inclusion Plans (FIPs); introduction of BC/BF model and opening of bank accounts on target basis which are mostly dormant; various schemes / programmes at Central level such as Self Help Group-Bank Linkage Programme; RashtriyaMahilaKosh (RMK); and at State level such as Kudumbashree Scheme in Kerala; Stree Nidhi Scheme in Andhra Pradesh etc.

i. Encouraged the SHG-Bank Linkage Model, one of the largest micro finance models in the world, under which 4.79 million SHGs have been credit linked, covering 97 million poor households (till March 2012). ii. Mandated Commercial Banks including Regional Rural Banks to migrate to the Core Banking Platform. iii. Substantially liberalised the BC based service delivery model in phases. iv. Permitted domestic scheduled commercial banks to freely open branches in Tier 2 to Tier 6 centres. v. Mandated banks to open at least 25% of all new branches in unbanked rural centres. vi. Substantially relaxed the Know Your Customer (KYC) documentation requirements for opening bank accounts for small customers. vii. Encouraged Electronic Benefit Transfer for routing social security payments through the banking channel. viii. Pricing for banks totally freed; Interest rates on advances totally deregulated. Still, there are several factors affecting access to financial services to weaker section of society like: Place of living, Absence of legal identity and gender biasness, limited knowledge of financial services, level of income and bank charges, and rigid terms and conditions of traditional financial institutions. Microfinance came into existence to serve specially this weaker section of society. And, since the beginning it has been playing a key role in financial inclusion in India. The success story of Bandhan bank has forced RBI to truly recognise the importance of microfinance institutions for financial inclusion. In autumn 2015, RBI granted specific banking licenses to 11 payments banks and 10 small finance banks. Eight of the 10 newly licensed small finance banks were MFIs. Financial inclusion has been recognized as a priority goal of the microfinance sector and efforts were made in this report to identify the critical areas of interventions for greater success of the initiatives in the future.

### 3. Microfinance and the Economy of Bihar

Microfinance is a potent alternative for poverty alleviation, through affordable, timely and adequate credit and other financial services for the poor people. This is particularly true in Bihar. Rest other conventional anti-poverty programme in Bihar

suffers from problems of delivery and are often unsuccessful in making serious dent on poverty. Poverty in Bihar is especially caused by the absence of a credit support for the poor households. Both prominent models of microfinance (Micro Finance Institutions & Self-Help Group Bank linkage programme) are expanding in the state since its beginning. But, Self-Help Group Bank Linkage Programme (SHG-BLP) implemented by Scheduled Commercial Banks, Regional Rural Banks and Cooperative Banks, have emerged as the major microfinance in the Bihar. Bihar had 2.79 lakh SHGs at the end of 2015-16, about 3.5 percent of country's total: its share in 2014-15 was lower at 2.9 percent.

### 4. Conclusion

In a backward state like Bihar, microfinance has potential to work as mobilizers of savings and allocators of credit for production and investment to the poorest segment of society. As per the latest data of Govt. of Bihar, the state has still 33.7% people living below poverty line. So, this sector can really play a vital role in this state if some of its identified obstacle (Identified by NABARD) like: absence of reputed NGOs, inadequate outreach in many regions, delay in opening SHGs accounts, delay in disbursement of loans, multiple interface with borrowers, monitoring and low awareness of the stakeholders about benefit of microcredit could be removed. As a financial intermediary to the poorest people of economy, the microfinance can contribute to the growth of state economy by providing easy access to financial product and services to these financially excluded people and make a great contribution in financial inclusion of the state. Financial access to these poor people can really boost their financial condition and standard of life. Lack of accessible, affordable and appropriate financial services has always been a problem in the state like Bihar and effective inclusive financial system is needed for economic growth of the country. RBI, NABARD and government plays an important role in promoting microfinance programme for a better financial inclusion and growth of the economy. The present study found the positive significant impact of total saving growth of microfinance on the GSDP of the state. Whereas other two indicators of micro finance, Total Client Outreach and Credit growth portfolio has been shown as a statistically insignificant impact on GSDP of the state. Hence, the study observed that growth of the microfinance in Bihar is poorly associated with the progress and development of the state economy so far.

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