

Role of Microfinance in Rural Development of Bihar

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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 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,

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organizing 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.

Financial Inclusion & 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 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; Rashtriya Mahila Kosh (RMK); and at State level such as Kudumbashree Scheme in Kerala; Stree Nidhi Scheme in Andhra Pradesh etc. RBI has taken following steps to improve financial inclusion in India:

- a) 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).
- b) Mandated Commercial Banks including Regional Rural Banks to migrate to the Core Banking Platform.
- c) Substantially liberalised the BC based service delivery model in phases.

- d) Permitted domestic scheduled commercial banks to freely open branches in Tier 2 to Tier 6 centres.
- e) Mandated banks to open at least 25% of all new branches in unbanked rural centres.
- f) Substantially relaxed the Know Your Customer (KYC) documentation requirements for opening bank accounts for small customers.
- g) Encouraged Electronic Benefit Transfer for routing social security payments through the banking channel.
- h) 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.

Socio-Economic Profile of Bihar

Bihar is one of the poorest and most populous States in India. It is 12th largest in terms of geographical coverage (2.8% of the total land area) and 3rd largest by population (8% of the total population of the country). The decadal population growth rate of the State during 1991 to 2001 was the highest in the country at 28.62%. Of its total population, 89.5 percent lives in rural areas. The combined share of ST/SC population is 16.4% of the total population of the State.

In terms of Human Development Index, Bihar is at the lowest position among all the major Indian States. Per capita income of Bihar is the lowest in India at only 25.1 percent (Rs. 5,772) of national per capita income (Rs. 22,946). The State ranked as 7th poorest with 53.50% of its population under the poverty line. The literacy rate at 63.82% is much below the national average of 74.04%. Female literacy is only

53.33% as compared to male literacy rate of 65.46%. as per 2011 census. Demographic indicators like high birth rate and infant mortality rate, poor social service delivery, lack of inclusion in institutions and economic opportunities due to limited infrastructure development all point to a highly disadvantaged social and economic conditions. Table 3.1 gives comparative data for Bihar and all-India in respect of several socio-economic indicators.

Table - 1
Socio Economic Profile – Bihar (2011)

Socio-economic Profile	Bihar
Population	103804637
Poverty ratio	53.50%
Overall literacy rate	63.82%
SC population	15.72%
ST population	0.91%
Avg. land holding	0.75ha
Human development index	0.367
Infrastructure development	91.31

Source: Bihar Statistical Handbook 2012

As per the Planning Commission’s classification Bihar falls in the Middle Gangetic plains region. The State is divided into three geographic regions i.e. north Bihar plains, south Bihar plains, south Bihar Plains. Agriculture is the backbone of Bihar’s economy with its vast population residing in rural areas. However, the period of 1991 to 2001 saw a sharp decline in cultivators from 47 percent to 33.6 percent and an increase in agricultural labor from 39.4 percent to 48.6 percent. The Gross Cultivation Area is 7.9 mha. and Net Cultivation Area is 5.7 mha with rice (43%), wheat (26%), maize (7%) potatoes (4.2%) and mangoes (1.9%) being the main crops.

The Rural Non-Farm Sector is an emerging source of additional livelihood, since agricultural employment has reached saturation levels even in the backward regions. The Below Poverty Line (BPL) households are agriculture labourers (46.5%), artisans (12%), non farm labourers (6.3%), small and marginal farmers (26.4%) and others (8.5%). The share of the Rural Non-Farm Economy (RNFE) increased from 15.2 % in total rural employment in 1991 to 19.0% in 2001. North Bihar has the weakest rural infrastructural base within the State and RNFE is least developed in this sub-region.

Despite all these challenges Bihar has emerged as a development-oriented state in last few years. The government has focused on industrial investments, infrastructural improvement and agricultural input supply. The

Government of Bihar’s Vision (as per White Paper on State Finances and Development, 2006) is to reduce the poverty headcount from 39% (1999) to 28% by 2015. Present Five Year Plan (2007-2012) emphasizes investment for women’s socio-economic empowerment, enhancing livelihood opportunities in the farm and non-farm sectors, and participation of local level institutions such as self-help groups to make service delivery more accountable.

Banking Profile of Bihar

Bihar is one of the most undeveloped States in terms of the outreach and development of banking services. Despite being third largest in population, the banking network in the State comprises of only 5 percent of the all bank branches in the country. The bank branch network in Bihar shows that out of a total of 3,698 branches of various banking entities, 63% of the branches are in the rural areas, 20.7% in semi urban area and 16.3% are located in the urban centers². Given a rural area of about 94,000 square kilometers this translates to a bank branch on average every 35 square kilometers suggesting an inter-branch distance of at least 6 kilometers on average in rural Bihar³. In terms of population, estimates suggest that the branch population per bank in Bihar is approximately 23,000 in comparison to the national average of 15,000. The rural urban divide in Bihar is also very stark with each rural branch serving 31,000 people as compared to 18,000 people in the urban areas. Formal banking shows another facet of low penetration. 37 out of 538 blocks in the State have no bank-branch. About 700 to 800 branches out of about 3,700 bank-branches in the State are single-person branches. Private commercial banks are concentrated in only a few urban centres in Bihar. Besides this, Bihar has a large number of Primary Agricultural Credit Societies (PACS) (8400) and other credit cooperative societies (250).

Though data shows a significant network of rural branches in Bihar, aggregate level data conceals the huge concentration of banks in a few pockets of the State. Regarding the concentration of branches in rural areas, Muzzafarpur, Gaya, Purbi Champaran, Patna and Samastipur districts together occupy a share of 23.5% of all rural branches of Bihar. However, even in districts where the number of rural branches is high, most of the branches in rural areas are poorly manned and are poorly managed.

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 Co-operative 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. The total: savings of its shar these SHGs were Rs. 360 crore and a total bank credit of Rs. 611 Crore was made available to these SHGs during 2015-16.

Table- 2
SHG-Bank Linkage in Selected States of India (March 2016)

State	No. of SHGs ('000) with Bank Linkage	Savings of SHGs with Banks (Rs.crore)	Bank loans disbursed during the year (Rs.crore)	State	No. of SHGs ('000) with Bank Linkage	Savings of SHGs with Banks (Rs.crore)	Bank loans disbursed during the year (Rs.crore)
Andhra Pradesh	902	4146	11505	Maharashtra	789	857	1660
Bihar	279	360	611	Odisha	487	486	869
Chhattisgarh	160	160	96	Punjab	30	40	38
Gujarat	221	184	266	Rajasthan	264	187	322
Haryana	43	159	54	Tamil Nadu	852	920	4826
Jharkhand	99	96	66	Uttar Pradesh	364	382	284
Karnataka	962	1442	6259	West Bengal	831	1535	1954
Kerala	273	629	1407				
Madhya Pradesh	249	248	591	Total	7903	13691	37287

Source : Status of Micro Finance in India, 2015-16, NABARD

Table-3
Growth of MFI Model & SHG-Bank Linkage Model in Bihar
MFI MODEL

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Client Outreach(Lakh)	7.5	10.19	11	12	17	24	24
Gross Loan Portfolio Outstanding(In Rs. Crore)	496	537	895	1036	1689	3076	3526

SHG-Bank Linkage MODEL

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Client Outreach	140824	248197	305113	270890	3240000	2918000	3821000
Gross Loan Portfolio(Rs. Lakh)	8539.57	10857.3	14042.4	18987.6	89814.2	102876	100248
Savings of SHGs with Banks (Rs. Crore)	81.89	108.57	140.42	169.64	164.66	280.45	360.06

Source: Compiled from various reports of NABARD & Sa-Dhan (Author)

Table 3 presents growth trends of microfinance models in Bihar over the years. As of March, 2016, MFIs covered 24 lakh households, whereas bank linkage SHG coverage in rural Bihar reached to 36.21 lakh households. Total Gross loan portfolio in MFIs segment reached to Rs. 3526 Crore and Rs. 1002.48 Crore in SHG-Bank Linkage segment. Total savings at the end of March, 2016, was 360.06 crore in SHG-Bank Linkage programme with an increase of 28% from last year.

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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