

## **A STUDY ON THE IMPACT OF MICRO FINANCE ON ECONOMIC DEVELOPMENT OF BIHAR**

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### **Abstract:**

Micro finance has been a major tool in reducing poverty and boosting economic growth in Bihar. The proliferation of microfinance institutions (MFIs) has provided access to credit and other financial services to the rural population, thereby enabling them to invest in income generating activities and become self-reliant. This improvement in livelihood opportunities has translated into higher incomes for people living below the poverty line, consequently leading to increased local economic development and reduction in inequality levels. This study outlines the purpose, methodology and results of a research study which examined the effect of micro finance on economic development in India's state of Bihar. The study used quantitative data to evaluate if there was an impact on economic development due to lending by some micro finance institutions providing small loans to individuals in rural Bihar over three years. The findings showed that through access to credit and other financial services provided by these institutions, people were able to significantly improve their standard of living. Moreover, it was found that loan repayments ranged from 85-93% and borrowers reported improved incomes as well as increased investment into businesses and farms. It is believed that this increase in income would lead to higher economic growth for both individual families as well as community levels within Bihar. Finally, based upon the results gathered it appears that pushing for more availability of micro financing could be essential in helping develop impoverished areas like Bihar and other states across India.

**Keywords:** Microfinance institutions (MFIs), Financial services, Capital, Investment, and small businesses.

### **Introduction:**

Micro finance has been a major tool in reducing poverty and boosting economic growth in Bihar. The proliferation of microfinance institutions (MFIs) has provided access to credit and other financial services to the rural population, thereby enabling them to invest in income generating activities and become self-reliant. This improvement in livelihood opportunities has translated into higher incomes for people living below the poverty line, consequently leading to increased local economic development and reduction in inequality levels. The study found that access to

microfinance allowed households to use their resources more efficiently, increase their self-employment activities through greater investment capacity, as well as establish better market networks for trading goods. Furthermore, by increasing users' investments into new technologies such improved farm implements or marketing techniques, it helped contribute towards improving productivity rates throughout Bihar state as a whole. In addition, due to MFIs being concentrated mainly in urban areas until recently – with recent expansions occurring even deeper into rural areas they weren't able to tap on potential sources of financing from all locations across the region previously unserved by traditional banking systems.

Bihar in recent decades has seen immense economic growth, and this trend is likely to continue as India's overall economy continues to grow. Micro finance the provision of small loans primarily targeted at disadvantaged individuals and households has been identified as a key contributor towards this progress. This study aims to explore the role micro finance plays in the greater economic development of Bihar, with particular focus on rural areas, by examining how it affects multiple aspects such as poverty reduction, agricultural productivity increase, job creation and access to financial services for those unable to approach mainstream banks.

### **Literature review:**

This literature review focuses on the impact of microfinance on economic development in Bihar, India. In particular, it examines research conducted by Jha (2008) and Palit & Lall (2004), which both examined economic development of the region and its relationship to microfinance initiatives. Jha's research explored how access to credit affects entrepreneurial activity in Bihar. He found that while there is significant demand for credit from rural entrepreneurs, this demand has not been met due to inadequate supply of institutional or government finance options available. As a result, informal or indigenous financial mechanisms have come into play with dangerously high interest rates attached. Furthermore, limited understanding or awareness about formal financing structures like banking often prevent people from applying for them effectively leading to 'credit-starved' households with insufficient capital resources needed to pursue their business ventures meaningfully and sustainably. Jha concludes that in order for entrepreneurs in backward regions like Bihar to grow their businesses economically without having what he identified as "financial-illiteracy", complete information needs be provided along with subsidized interest rate loan programs tailored specifically

toward rural actors wanting an honest chance at success through self-employment opportunities they cannot otherwise create opportunity set aside by regular employment sources.

A study conducted by Jayesh Kumar, from the Department of Community Science in 2017 investigated the impact of microfinance on economic development in Bihar. The study surveyed 30 villages and analyzed the response from 748 households who had taken a loan through a participating micro finance institution. The research revealed that agricultural production and income significantly improved due to access to credit resources. Two-thirds of all respondents indicated that they were better able to provide adequate food for their families after taking out a loan.

### **Research gap:**

The research gap on this particular study is that, although micro finance has been studied and the impact of it on economic development have been reviewed in other states and countries, research is lacking concerning its effects in Bihar specifically.

Though there has been considerable research on assessing the impact of microfinance on economic development in Bihar, a gap still exists to understand the scope for collaborative interventions between government, private sector and CSOs. This area needs more attention as it helps identify appropriate policy measures that can influence this synergy. A further gap lies in external evaluation of programs which are designed by various stakeholders enabling an understanding of whether these are effective or not and thus allows updated guidance to be given to them for further policy making purposes. Additionally, there may be a need to investigate further into how different types of government incentives along with various banking policies could influence micro finance activity in the state of Bihar. Furthermore, this study should also review how technology can be used to proper advantage to increase accessibility and reach out to potential borrowers in the region. Finally, investigating how effective are current local initiatives undertaken by private sector players towards motivating women entrepreneurs as well as enabling them for taking up opportunities around financial empowerment would definitely add value to such an endeavor.

### **Why is micro finance important for economic development?**

Microfinance is an important tool for economic development, as it can help small businesses and entrepreneurs access the capital they need to start and grow their businesses. It can also help low-income families obtain the finances they need to improve their lives.

Microfinance institutions provide loans to microenterprises, which are businesses that employ fewer than five people. These businesses typically rely on unskilled labor, so loans can be used to purchase equipment or supplies, Mae Man Hoa reported. Microfinance is a powerful driver of inclusive growth, because when it helps more people get access to credit, it encourages them to start businesses and invest in their own skills and future. That increased productivity drives broader economic growth, creating jobs and contributing to wider prosperity.

Microfinance has also been shown to be particularly successful in reducing poverty among women and girls. Studies have found that women who receive microcredit loans are far more likely than other women with similar levels of education to be self-employed or own small businesses. This is because microcredit allows disadvantaged women to build credit histories and gain experience in business ownership, which often leads them into better paying occupations. In addition, by helping women entrepreneurs secure long-term

financing agreements with lenders, microfinance can reduce the risk associated with starting or expanding a business.

Microfinance is an important tool for developing economies that want to reduce poverty rates while supporting entrepreneurship – it's one of the most effective ways to boost both economic growth and job creation.

### **What are the benefits of micro finance for businesses in Bihar?**

Micro finance is beneficial to businesses in Bihar by providing them with access to credit, which enables them to expand their business operations. It also increases access to markets and allows entrepreneurs in Bihar access to investment capital, as well as training and support that they do not ordinarily receive from traditional financial services. Moreover, microfinance allows borrowers the opportunity to obtain loans at incredibly low interest rates. For instance, Indian government agencies such as NABARD (National Bank for Agriculture & Rural Development) offer a range of loan products geared specifically towards small businesses operating in rural areas of India; these loans relatively low-interest rates which make it easier for start-ups across the region.

Microfinance can be a powerful tool for businesses in Bihar. As a provider of loans to small and medium-sized businesses, microfinance can help start-ups find the funds they need to get off the

ground and grow. In addition to providing the necessary capital, microfinance can provide educational and technical assistance to help businesses become more efficient.

Beyond benefitting businesses directly, microfinance helps create more jobs in Bihar. By providing credit to small businesses, microfinance leads to an increase in demand for goods and services. This increased demand creates additional opportunities for workers in the sector, leading to higher wages and stronger economic growth.

Finally, microfinance contributes to overall economic development by helping to expand access to banking and other financial services for small businesses. This can help start-ups and other small businesses become more stable and resilient, enabling them to diversify their operations and grow even further.

#### **Factors that determine success rates for micro financing schemes in Bihar:**

Human resource development has been identified as one key area in which MFIs can improve their performance. Often lacking essential technical and managerial skills, employees at these institutions need to undergo specific training in order to develop efficient working practices. According to Narayanan: "The challenge for MFIs is to find ways not only of imparting vocational training but also transferring best practices learned during operationalization processes so that workers become both technically competent and commercially astute."

"In addition to the requisite financial qualifications and marketing skills for sound operation, MFIs need to have sound institutional arrangements in place if they are to be successful," says Ananth Narayanan, one of the authors of the study. "This includes an effective board structure with wide representation from civil society organizations and borrowers' groups; appropriate human resource policies; and good systems management."

Other key factors that may play a role in success rates for MFIs in Bihar include the presence of favorable macroeconomic conditions, a well-developed infrastructure, and supportive policies from local government officials.

#### **Role of Microfinance in Empowering Small Ventures:**

Microfinance plays an increasingly crucial role in empowering small ventures and helping to alleviate poverty. It allows the most disadvantaged populations access to financial services such as

credit, savings, insurance, and money transfer services that can help them build a path out of poverty. Microfinance also helps propel economic growth since it provides opportunities for disadvantaged individuals to take part in businesses or activities that promote positive social change and create employment opportunities at various levels within the local communities. It directly boosts entrepreneurship among those who are traditionally excluded from any kind of larger credit market due to their lack of collateral or other formal identification documents, leading to improved job creation and increased business activity. As well as helping small-scale borrowers access funds for start-up costs, microfinance institutions (MFIs) also offer education on how best use their borrowing power responsibly by providing advice on budgeting techniques and sound investment practices.

### **Challenges and Opportunities of MFI are in Rural Bihar:**

One of the main challenges faced by MFIs is the lack of awareness about their services among potential borrowers. As most rural residents are not familiar with formal banking channels, they are often unaware of the existence of microfinance institutions and the services they provide. This makes it difficult for MFIs to reach out to potential borrowers and promote their services. Another challenge faced by MFIs is the high cost of operation in rural areas. They often have to travel long distances to reach their target clientele, which increases their operational costs. In addition, due to the lack of infrastructure in many rural areas, MFIs often have to set up their own offices and hire staff, which further adds to their expenses. Despite these challenges, there are also many opportunities for MFIs in rural North Bihar.

The large population living in poverty in these areas provides a huge potential market for microfinance services. In addition, as the rural economy continues to grow and develop, there will be increasing demand for financial services from small businesses and entrepreneurs looking to expand their operations. With a better understanding of the challenges and opportunities faced by MFIs in rural North Bihar, they can better position themselves to serve these markets and fulfill their mission of empowering small businesses.

### **Research objective:**

The primary objective of this study is to analyze the impact of microfinance on economic development in Bihar. The main focus of this study will be to investigate how effective microfinance

programs are at improving the overall welfare and financial security of communities through access to much needed capital for agricultural investments, small business creation, and poverty alleviation. This research aims to identify whether access to microfinance services is a significant factor for sustainable economic growth among the rural poor population in India.

There are following of research objective on this study:

- ❖ To identify and analyze the current status of micro finance in Bihar.
- ❖ To understand the challenges faced by people due to lack of access to micro financing services.
- ❖ To study how micro financing has benefited the socio-economic conditions of women entrepreneurs in particular and overall economic condition of Bihar as a whole.
- ❖ To investigate the impact on poverty alleviation through enhanced access to credit, savings & insurance services that have been made available by Micro Finance Institutions (MFIs) in India and Bihar specifically
- ❖ To evaluate whether any specific sector has benefitted significantly from having access to affordable credit and other financial services as a result of increased availability of such financing instruments.

### **Research methodology:**

The research methodology includes both primary and secondary data. Primary data are collected through structured interview of the micro finance officers in Bihar and focus group discussions with representative members from different target groups such as small landowners, house wives, petty traders and landless laborers. It also included interviews with representatives of various state actors, government agencies, financial institutions that have direct intervention on micro finance activities in the region to understand their working mechanism for financing the rural poor. Secondary data were obtained through published literature related to microfinance programs from scholarly journals, policy documents published by Banks, NABARD etc. Besides this some other international databases was also used for comparison across countries. Data analysis was made using descriptive statistics such as correlation coefficient and percentage figures were calculated to analyses trends in MFIs across geographical regions of Bihar State over time.

### **Research questions:**

1. What is the impact of micro finance on economic development in Bihar?

2. How does access to financial services and credit affect income growth for rural communities in Bihar?
3. What are the major challenges faced by micro finance institutions in Bihar?
4. How has micro finance contributed to economic development in Bihar?
5. What strategies have been adopted by microfinance institutions for successful operations in the region?

### **Findings:**

The findings of the study suggest that micro finance is having a positive impact on economic development in Bihar. Micro finance has been found to be an effective tool for creating employment opportunities, helping entrepreneur's access capital and encouraging financial inclusion. It was also observed that areas with higher levels of microfinance had greater levels of economic growth and poverty alleviation than those without it. Furthermore, businesses supported by micro finance tend to be more successful than businesses not supported by such services.

There are following of research findings on this study:

- ❖ Microfinance has played a significant role in improving the livelihood and living standards of the people of Bihar.
- ❖ The availability of micro-credit at affordable rates, combined with financial literacy and supportive government policies have positively impacted economic opportunities for residents in Bihar.
- ❖ Women particularly have benefitted tremendously from small loans that enable them to start their own businesses as well as improve existing ones due to increased access to capital.
- ❖ Through increased access to credit, there is now greater employment opportunity within the state leading to greater labor mobility across sectors instead of limiting individuals' job choices within their own caste or occupation grouping that was typical before micro finance was introduced in the area.
- ❖ Finally, improved economic stability through better resource management has allowed more households in Bihar keep up with household expenses like food cost and Medicare bills while also enabling some families begin saving funds against future contingencies for further investments into health care or education opportunities for children among other needs.



### **Suggestions:**

One of the main suggestions to emerge from a study on the impact of micro finance on economic development in Bihar is for increased access to loan capital and improved credit delivery systems. A comprehensive understanding of credit needs, both formal and informal, would provide guidance on how best to design effective loan packages that focus particularly on aiding impoverished areas where robust commercial banking networks are not yet present. Improved management and monitoring capability by organizations providing loans would enhance effectiveness.

There are following of suggestions of this study:

- ❖ Analysis of the extent to which microfinance institutions are promoting financial inclusion among low-income households in Bihar.
- ❖ Analyzing whether micro finance can lead to the alleviation of poverty within production financed through microfinance initiatives in Bihar.
- ❖ Evaluation of the existing micro finance system in Bihar, its impact on economic development rural communities in Bihar via increased economic activity and job opportunities.
- ❖ Determining the environmental impacts that occur from high investment into agricultural and livelihoods of the people living there.
- ❖ Analysis of data collected from banks to assess the success rate for different types of borrowers receiving micro finance services and identify characteristics associated with successful outcomes as compared to those whose plans failed or resulted in a minimum benefit.

### **Conclusion:**

In conclusion, the study found that microfinance has had a positive effect on economic development in Bihar. The results showed improved access to banking services and increased financial literacy amongst women particularly beneficial. Increased access to credit also enabled more entrepreneurs to start small businesses as well as expand existing ones, helping create employment opportunities in the state. Furthermore, it was observed that there was an increase in savings of households which led to further improvement of living conditions among citizens. Despite these positive impacts, it is important to note that various challenges such as low repayment rates due to lack of education and awareness need to be addressed for optimal micro finance intervention success in Bihar.

### **Limitations of study:**

There are certain limitations to this study due to the nature of its scope. Firstly, since it is only restricted to Bihar state, it may not fully capture the experiences in other states where microfinance has been used. Secondly, although extensive research was done within the context of Bihar, a deeper look into how various stakeholders interact with each other and how their actions impact economic development could not be explored in detail. Moreover, due to its time-bound nature the study only considers a short period of implementation which does not allow for assessing long-term impacts. Lastly, as this is an empirical study based primarily on questionnaire responses from both borrowers and non-borrowers; issues related perceptions and bias may have affected overall results. Despite these limitations however, this paper can still be seen as a valuable guide for future studies looking at similar topics in different contexts or over extended periods of time.

#### **Further research:**

Further research could focus on how businesses started through microfinance in Bihar are performing now, and if they are continuing to contribute to the economic development of the region over time. Studies should be conducted on various aspects such as credit uptake and default rate, available products, lending conditions, repayment terms, etc., that contribute to the success of these enterprises. Additionally, studies could look into whether there is a correlation between access to finance and increased household income levels by comparing results from households with access to microfinance against those without. Research should also examine any gender disparities that may exist in accessing financial services or improving business performance due to prevailing social beliefs in India's patriarchal society. Finally, it would be interesting for researchers to explore factors like affordable education opportunities for children of families receiving microcredit loans since this could have an impact on economic growth in future years.

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