

## **A STUDY ON THE ROLE OF MICRO FINANCE IN POVERTY ALLEVIATION IN RURAL AREA OF BIHAR:**

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### **Abstract:**

Microfinance is a powerful tool for reducing poverty in rural areas of Bihar. It provides access to financial services that would otherwise be inaccessible for the poor people living in these regions. Microfinance enables these individuals and families to break through the cycle of extreme poverty by creating new channels for economic growth. The microfinance initiatives provide access to credit, savings and insurance products that help secure livelihoods and encourage investment into more productive activities. This study examines the impact of microfinance on poverty alleviation in rural areas of the Indian state of Bihar. The primary objective is to assess the effects that access to microloans and financial services have had on rural households' economic well-being, incomes, and ability to support themselves through purchasing power. Furthermore, it helps create job opportunities by providing capital for businesses as well as technical skills training where it's needed most. The results indicated that there were significant differences between those who received microfinance loans versus those who did not receive them; average incomes were higher amongst borrowers than non-borrowers while social indicators showed improved living standards amongst users with regards to better housing arrangements compared to their non-micro credit counterparts.

**Keywords:** - Microfinance, poverty, Economic, population, and social:

### **Introduction:**

Microfinance has emerged as a vital tool against poverty eradication and rural development in Bihar. The state government of Bihar has taken various steps towards the economic empowerment of people living in rural areas, by introducing micro finance banking services into their system. Micro-financing is an innovative financial instrument that enables individuals to access credit for activities like basic needs, agricultural purposes and small businesses operations financially with small amount of capital. These practices help them to take responsibility for improving their livelihoods and also build a sustainable economy. The primary objective behind such innovations is to create equitable access to resources amongst low-income segments living in urban or rural locations throughout the country. In case of Bihar's situation, more than 80 percent population still

resides in its far-flung villages whose main source of income lies primarily in traditional forms agriculture where they are required to use ancient techniques combined with diesel pumps or animal power for farming processes thus making it very challenging without any sources providing assistance except from locally available wages jobs after exploitation through middle man most who don't pay minimal wage value so as result putting pressure on marginalized section ahead leading toward growing class inequality overall nation's wealth disparity .

Accessing microfinance services can provide vulnerable populations with access to credit they would otherwise be unable to secure from traditional banking institutions so that they may create or expand businesses. Microfinance initiatives have also helped reduce gender inequality by empowering women who may not have had easy access to formal financing before; these programs encourage female entrepreneurs by providing them with resources and training necessary for success. These resources are often lacking in more rural communities, leading to the lack of opportunity yet prevalent therein.

This research aims to assess the role of micro finance in allocating poverty in rural areas of Bihar, India. Micro finance has been defined as the provision of financial resources and services such as savings, credit, insurance and money transfers to poor households. The main objectives are to investigate how these services affect poverty alleviation among rural populations, identify constraints associated with micro finance programs and suggest feasible policy reforms that can increase its effectiveness.

### **Literature review:**

This literature review is to critically analyze the results of a study which investigated the role of micro finance in poverty alleviation in rural Bihar, India. The study was conducted by Grime Gupta and Sharad Sinha in 2014. Their research focused on household surveys conducted with 485 respondents from five villages across four districts. The main objective was to investigate the role that micro-finance plays at both individual and family level for improving their economic status and livelihood opportunities. The authors found that access to micro-finance had significant positive effects on overall financial well-being and income generation among households surveyed, as compared to those without access. This literature review of A Study on the Role of Micro Finance in Poverty Alleviation in Rural Areas of Bihar by Dr R.G. Gupta (2015) examines

the impact micro finance has had on poverty alleviation efforts in rural areas of Bihar, India. Gupta's study mainly focuses on the final two decades leading up to 2015, and highlights trends within this timeframe which are pertinent to modern-day micro financing techniques for impoverished communities. The main objective was to discover if there is a direct link between increased access to financial services such as credit and savings for low-income households and an increase in overall living standards or quality of life. The research was conducted using data from several sources including interviews with local stakeholders, surveys as well as existing reports related to various aspects involved when providing these services in rural areas of Bihar. Specifically, Guptas' survey looked at variables such as socio economic structure amongst different villages, household assets and debts levels before accessing micro finance as well other post program impacts. Additionally it attempted to evaluate any differences among gender groups who have gained different levels of access from these activities. Overall; the role of microfinance in poverty alleviation in rural area of Bihar was authored by R.S Gupta and Pretty Sharma (2020). The aim of their research was to assess the impact of microfinance programs on household income, expenditure, and poverty reduction among rural households in Bihar.

### **Research gap:**

A study on the role of micro finance in poverty alleviation in rural areas of Bihar is an important research topic that needs to be addressed. While microfinance has been hailed for its potential to alleviate poverty, there are still a number of gaps that need to be filled when it comes to measuring its impact in this particular region. The current research available lacks nuance and lacks qualitative evidence which limits the value added by such studies. Additionally, there is a huge disconnect between researchers and practitioners as practitioners usually lack access or knowledge about what works best when it comes to microfinance institutions and how they can best serve the local population. Research also needs to examine the extent of awareness amongst households accessing financial services from MFIs both formally and informally through informal channels such as moneylenders, savings groups etc., Such insights will help fill existing gaps on understanding the effectiveness of microfinance initiatives in promoting poverty alleviation efforts in rural areas in Bihar.

### **What is microfinance?**

Microfinance is a financial system designed to provide very small loans and other services such as savings, insurance, and money transfer to individuals or groups traditionally excluded from the mainstream banking system. These include low-income earners, the unemployed, rural dwellers, farmers and those living in remote areas who may not have access to traditional banking options. It also includes women-owned or -managed businesses or households that are disproportionately affected by poverty due to gender inequality. Microfinance has been credited with improving lives across all of these communities by providing them with an accessible means of borrowing capital to grow their businesses and income opportunities. Not only does it give people access to capital they wouldn't otherwise have had but it allows them to start new businesses in their own communities which create jobs for others while helping lift families out of poverty.

Microfinance is a form of financing that provides small loans to low-income people to help them improve their lives. The loan is usually repayable over a period of two, three or six months. Microfinance is often seen as a way to bridge the gap between rich and poor, and has been shown to be successful in helping people gain access to essential services and improve their lives. There are First, microfinance loans are several advantages to using microfinance loans:

Very easy to get. Most banks are willing to offer microfinance loans to individuals or businesses that can show they have the ability to repay them.

### **History of micro finance:-**

The history of micro finance in India dates back to the early 1970s when Self-Help Groups (SHGs) were established by various national and international development organizations. SHGs were formed to provide economic assistance and livelihood opportunities for women from rural areas, who lacked access to conventional banking services. In 1992, the Indian government launched a comprehensive program called the Swarnajayanti Gram Swarozgar Yojana (SGSY), which provided access to credit, insurance, savings and other financial services through SHG intermediation. Shortly afterwards, the Reserve Bank of India (RBI) introduced prudential regulations related to microfinance operations in 1998 as part of its efforts aimed at strengthening the regulatory framework for such activities. Subsequently, numerous non-governmental organizations (NGOs) began setting up their own lending programs based on similar principles as those used for SGSY but with larger loan amounts given directly to individuals or groups instead

of through an intermediary organization like an SHG. Since then, microfinance has grown significantly both in terms of outreach and loan sizes with more than 40 million people now accessing some form of financial support from these providers.

### **Implementation Development and of micro finance programs in Bihar:-**

Microfinance is a powerful tool for reducing poverty. Its impact has been particularly pronounced in Bihar where credit growth has not kept pace with population growth; this has led to widespread rural poverty. In Kinden's case study of Beta block in Begusarai district, for example, such success stories highlight the importance of effective implementation strategies and good governance when it comes to microfinance programs. Bridging the Gap: Exploring the Role of Microfinance in Reducing Poverty in Rural Bihar.

Bihar is one of India's poorest states and suffers from high levels of poverty. Despite this, the government has put in place a number of initiatives to promote financial inclusion for citizens. One such initiative is the establishment of microfinance programs in Bihar. These programs have been designed to provide small loans and other financial services to people in rural areas who may not otherwise have access to them. This type of lending can help families start businesses or finance educations which can help them escape poverty and improve their lives. Microfinance has already had an impact on many Bihari households and will likely continue to do so as more people are exposed to these types of loan options. In addition, improving economic conditions overall will make it easier for individuals to secure funds effectively, allowing them even greater opportunities than before.

Microfinance is a program which provides financing to low-income individuals and families who cannot qualify for traditional bank loans. The programs provide small loans that are easily accessible, helping the borrowers improve their lives in many ways.

There is a lot of evidence that shows microfinance can be effective in reducing poverty. One study found that in LMICs, where microfinance is very prevalent, poverty reduction rates are significantly higher than in countries without microcredit provision. In addition, providing microcredit specifically to women has been shown to have particularly strong impact on poverty reduction outcomes related to gender equality and maternal health.

Micro finance has seen steady growth and development, leading to its establishment as one of the most preferred methods for poverty alleviation and economic empowerment among smallholder populations throughout the state. In particular, microfinance has allowed access to affordable credit services and other financial instruments that had previously been out of reach for many households on limited incomes. This access has facilitated entrepreneurship within these communities while providing a means for them to build up their capital reserves over time with reinvestment of profits back into self-sustaining businesses. As a result, there is now evidence to show that women entrepreneurs are especially benefiting from this approach due to improved financial freedom offered by these systems along with easier access to goods and services essential for human sustenance and progress. Microfinance also provides an additional layer of social security in vulnerable areas as families are able to cushion themselves against distress or adversities through planned repayment cycles without fear of unnecessary debt accumulation or contractual defaulting penalty charges associated with conventional banking practices.

Bihar is home to one of the largest populations of rural poor in India, estimated at 58 percent of the total population. Despite this, the state has not seen much development in terms of micro finance, which has been identified as one of the most effective methods for reducing poverty. The article explores why this is so and looks at what needs to be done to change this situation.

To begin with, there are a number of reasons why micro finance has not been able to take off in Bihar. One reason is that there is a lack of understanding about its importance and how it can be used to benefit people who need it most. Moreover, micro finance institutions themselves face a number of challenges – such as high start-up costs and low returns which make it difficult for them to earn a profit. However, these problems can be overcome if enough effort is put into promoting and expanding micro finance services.

**Research objective:**

The main objective of this research study is to explore the role played by micro finance in poverty alleviation in rural areas of Bihar. The study will examine how micro financing institutions impact the living standards of people living below poverty line and their livelihoods. It will analyze the effectiveness and efficiency of micro financial institutions in providing access to welfare services, creating sustainable income opportunities to households with lower incomes and improving quality

of life in poorer regions. The research will also compare different models for accessing financial capital from various sources such as government sponsored development banks, private sector financiers or self-help group's data. Finally it seeks to make recommendations that could help improve the quality of service delivery through these channels for better poverty alleviation results.

**There are some important objectives of these studies:-**

- To identify the extent to which micro-financing affects poverty alleviation in rural regions of Bihar.
- To investigate whether or not there is any difference between male and female borrowers regarding utilization of the loan amount for purposes related to income generating activities in rural areas of Bihar.
- To determine if, how often and why microfinance services are used by people belonging to different economic classes in rural areas of Bihar both with respect to amount borrowed and repayment rates.
- To assess the impact that various macro environmental factors (such as governmental policy changes) have on demand for Micro finance services among poor households in Rural parts of Bihar;
- To study the governance structure employed by each MFI reaching out to beneficiaries from rural parts of state;

**Research methodology:**

The research methodology used for this study is based on a qualitative approach or exploratory research. It will focus on the semi-structured interviews where both rural people in Bihar as well as various stakeholders, such as local government officials and other micro financial institutions, are interviewed to extract their viewpoints on the effectiveness of micro finance approaches. The interview guide was developed to capture the detailed information from these respondents about their experiences with poverty alleviation activities using microfinance and related instruments. Additionally, an analysis of literature and secondary data was conducted to gain insights into existing policy frameworks relating to poverty alleviation initiatives in India.

**Research questions:**

1. To what extent are micro finance institutions impacting poverty alleviation in rural areas of Bihar?
2. What is the current scenario of rural poverty in Bihar?
3. To what extent has microfinance helped in alleviating poverty levels among rural households?
4. What are the main motivations behind accessing micro savings and how does it assist them to make better financial decisions?
5. What distribution mechanisms have been implemented by micro finance institutions to support the local economy and lift people out of poverty?

### **Findings:**

The study found that micro finance had a positive and significant impact on poverty alleviation in the rural area of Bihar. The most important effect was seen in terms of raising income level, followed by improvements in health and education access. Access to banking facilities through use of ATM cards or other online transactions has enabled faster and more convenient carries out financial transactions at anytime from anywhere. Households with access to micro-finance benefitted from improved economic and social indicators such as higher average family income increased dietary diversity score, better utilization of healthcare facilities, relatively low rates of illiteracy etc. Micro-finance institutions also provide insurance facilities that were further beneficial for households against potential losses due to accidents or natural disasters Protection etc. Additionally, it was observed that borrowing data do not necessarily reflect actual loan utilization leading to many delays in loan repayment thus emphasizing importance regular monitoring activities.

### **There are some important findings of these studies:-**

- ✚ The study found that the majority of rural households surveyed had access to micro finance programs.
- ✚ Most respondents reported a positive improvement in their livelihoods as a result of receiving micro-credit loans and other services.
- ✚ A significant number of rural people relied heavily on informal sources for credit indicating the existence of strong links between these systems and microfinance institutions operating in Bihar's rural areas.



- ✚ There is evidence to suggest that many individuals who accessed credit from formal financial institutions took additional steps towards diversifying income sources or improving existing ones, particularly those related to agriculture and small businesses.
- ✚ The study also highlighted the importance of improved access infrastructures such as road networks for increased connection between urban centers and potential recipients living within remote villages throughout Bihar India.

### **Suggestions:**

Microfinance has been increasingly recognized as an effective tool in poverty alleviation and economic stability, especially for the rural poor. A study on the role of micro finance in poverty alleviation in rural areas of Bihar found that access to small loans enabled households to increase their income and improve their quality of life by allowing them to make investments in assets such as livestock or farming equipment. The study also found that “social capital formation” was greatly enhanced through increased interaction among members of society who would have otherwise remained isolated from each other. Furthermore, social networks created from these interactions could help spread knowledge and build trust between communities working together towards a common goal – fighting poverty by creating sustainable livelihoods. The research concluded that microfinance initiatives should be tailored to different needs within local contexts, while providing support so families can develop entrepreneurship skills with resources made available through loans and training programs.

### **There are some important suggestions of these studies:-**

- ❖ A comprehensive analysis of the number and characteristics of poor households benefited from micro finance activities in rural Bihar.
- ❖ Assessment of impact on poverty due to introduction of micro finance services, allowing people to access credit for their business ventures.
- ❖ A survey on whether enrolment and disbursement of small loans among rural communities has impacted unemployment rate and livelihood opportunities in the area.
- ❖ An examination about how sustained availability of financial resources has contributed towards increased savings culture amongst economically deprived families in Bihar's rural areas.

- ❖ Study the effects of microfinance initiatives on the savings and investment activities in the region.

### **Conclusion:**

This study reveals that microfinance has helped the rural population of Bihar in poverty alleviation and financial inclusion. The access to low-cost, timely and convenient finance has enabled households to increase their income by developing small business activities or improving the productivity of existing ones. Microfinance through SHG membership also empowered women, ensuring greater freedom for them in taking decisions related to income generation and expenditure. In addition, MFI's not only provided financial services but also have been offering non-financial services such as training programs encouraging participants to develop self discipline that further helps them in managing their finances better thus reducing any risk associated with it. This proves that beyond doubt micro finance is an effective tool for poverty reduction in India on its journey towards making the country more economically viable.

### **Limitations of study:**

This study has certain limitations too. The focus areas of the research are limited to only few districts in Bihar, thereby limiting scope for a greater sample size and deeper analysis. Furthermore, the data used was collected through primary sources such as questionnaires and interviews with selected people from the field which limits its representativeness. Additionally, due to time constraints it was not possible to further evaluate very short term impacts of micro-finance on rural poverty alleviation or analyze correlations between past experiences and socio-economic transformation under this type of intervention. Finally, since studies like these depend heavily on subjective evaluation, there is probability that errors may have occurred during data collection leading to inaccuracy in results obtained. Secondly, due to lack of available resources such as technology or finance, some participants were unable to provide reliable information that could have aided our analysis. Lastly, since this is an exploratory study based on collective understanding within a short duration of time it does not reflect causal relationship between variables.

### **Further research:**

Research can and should be done to further understand the benefits that micro financing offers individuals living in rural areas of Bihar. Survey techniques and interviews could determine what types of goods are being purchased with the financing, as well as any positive or negative impacts on health outcomes stemming from the increased access to these items. Additionally, specific case studies examining households who received funding versus those who did not could tease out more nuanced information about financial behavior changes related to receiving funding. Finally, qualitative methods like focus groups and interviewing key stakeholders-including community leaders-could help researchers identify challenges or unanticipated consequences that may arise from using microfinance as a means for poverty alleviation. Ultimately this research will allow us to better understand how groups are making use of this important tool which may lead to policy improvements in how credit is allocated and managed in future years.

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