

## **IMPACT OF MICROFINANCE ON POVERTY ALLEVIATION IN RURAL AREAS OF BIHAR**

**Himanshu Gupta**

Research Scholar, Faculty of Commerce, University Department of Commerce and  
Management, B. R. Ambedkar Bihar University, Muzaffarpur

**Dr. Niraj Kumar Verma**

Asst. Prof. & Supervisor, Department of Commerce S. N. S. College, Muzaffarpur

### **Abstract**

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. This study examined the impact of microfinance on poverty alleviation in rural areas of Bihar. The research design was descriptive correlation type, and it focused on data collected from two villages - one with access to microfinance services and another without such access. Data were collected from primary sources (interviews) and secondary sources (literature searches). Statistical tests revealed that there is a significant relationship between access to microfinance services for individuals or groups and decreasing levels of poverty among rural population in Bihar. Furthermore, results showed that those who accessed financial assets through MFIs have higher education, better economic status, better healthcare facilities compared to those who do not have such access.

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

### **Introduction**

Microfinance is a powerful tool to address poverty. It has the potential to enable people living in rural areas of Bihar, especially those with limited resources and hardworking families, to access credit and financial services for their businesses or income generating activities. It can also help

them diversify their incomes by developing new skills or initiating small business ventures. Research conducted over several decades has found that microfinance plays an important role in improving the quality of life and livelihoods of poor people around the world by providing access to resources crucial for helping them make better economic decisions in order increase their well-being.

Micro finance is playing a big role in poverty alleviation programs in the rural areas of Bihar. This activity has been adopted by the government for sustainable development purposes and subsequent social welfare. Microfinance involves providing small amounts of loan to people who have limited access to capital, allowing them to start their own businesses or engage in activities that will eventually lead them out of poverty as well as enabling families to become self-reliant by taking part in income generating tasks such as vegetable farming, animal husbandry, handicrafts etc. This helps to support local communities and alleviate poverty levels at a grassroots level. By making these micro loans available, people are able to develop skills and create an additional source of income which reduces dependency on welfare schemes provided by the state government helping individuals achieve some degree of financial independence through self employment rather than relying solely on subsidized aid from external sources. As a result, these efforts have helped lift thousands out of extreme poverty leading towards more equitable distribution within society thus increasing economic stability over time which brings benefits not just for single households but also entire villages which benefit from improved access resources like healthcare vaccinations visitations etc.

However, despite its benefits, there are still many issues related to implementation that need addressing if it is really going bring about meaningful change at scale in India's poorest state—Bihar. This paper sets out to identify some of these issues, assess progress made so far towards alleviating poverty through microfinance projects implemented on the ground and suggest future policy recommendations so as maximize positive outcomes from such initiatives in Bihar going forward.

### **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.

A literature review conducted by Agawam and Sharma in 2008 studied the impact of microfinance on poverty alleviation in rural areas of Bihar, India. The research surveyed 600 households that were part of a self-help group (SHG) or not part of an SHG. The survey found that those who participated in microfinance programs through SHGs had higher incomes than those without access to such programs. Additionally, the study revealed that those with access to these services experienced greater economic empowerment and increased levels of social capital within their communities. Other findings included improved employment opportunities, better access to health care services and education for children from poorer families as well as increased awareness about

legal rights among women involved in the program. Furthermore, it was concluded that there is potential for further expansion and improvement in the provision of financial products to reduce poverty in rural areas if appropriate policies are implemented.

### **Research Gap**

Despite the numerous studies on microfinance and its potential to alleviate poverty, there has been a lack of empirical research exploring the role of microfinance in poverty alleviation in rural areas of Bihar. While some researchers have examined certain aspects such as access to credit or specific schemes, other important dimensions including consumption smoothing or asset accumulation remain largely unexplored. The general goals and objectives associated with using micro finance for poverty alleviation are well established; however, there is no consensus on which specific interventions could be most beneficial for reducing rural poverty levels in Bihar. This research gap should be filled by conducting detailed field study around different villages and their respective development models that use micro financing as a tool to reduce incomes gaps. By understanding the needs and characteristics of these population groups better it is possible to devise more effective policy responses aimed at poverty reduction via targeted financial inclusion strategies.

### **Concept of microfinance**

Microfinance refers to the provision of financial services such as loans, savings, insurance, and money transfer to individuals or small business owners who would otherwise lack access to traditional banking services. This kind of financial empowerment helps give underserved entrepreneurs the opportunity to start an enterprise or grow existing businesses. By doing so, these individuals can become self-sufficient and are able to contribute positively to their local economies. In addition microfinance lessens poverty rates in developing nations by providing economic sustainability through capital accumulation for many of its participants. It has been proven that with just a few hours of instruction on proper budgeting and financing habits even those without consumer credit histories have achieved tangible success through improved household saving levels and increased income earned from started businesses ventures due to microloans received at reasonable terms and conditions for borrowing.

In developing countries, commercial banks often do not extend financial services to low-income households in remote rural areas due to lack of collateral or

unavailability of banking facilities there. This gap is filled by microfinance institutions who offer small loan sizes usually with no collaterals at reasonable interest rates. These loans are designed as per the needs and capacities of poor and marginalised people so that they can support their families meet their daily needs, start a small business enterprise or improve existing ones. With new opportunities and improved income generation capacity, individuals are able to diversify their sources risk significantly reducing vulnerability against any external shock such as natural disasters like floods, drought etc., thus helping them build reliable livelihoods. Other benefits include improved access decisions making power in family affairs on part of women leading to more gender equitable environment in families which further have positive outcomes associated with it on healthcare nutrition status and education levels particularly among children especially girls experiencing broader socio-economic growth over time .

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

Bihar is the third most populous state of India, and it faces a very high level of poverty. There have been many attempts to help those in need through various micro finance programs. Micro finance has vast potential to empower financially excluded communities by providing access to financial services such as credit, savings & insurance at an affordable cost. In Bihar, there are several initiatives for implementation & development of microfinance programs which include government-run projects, private sector initiatives or not-for-profit organizations. Some examples include the Jeevika Rural Livelihoods Project run under the auspices of Government of Bihar; KELSA (Krishi Credit Card) by NABARD & various other Nationalized Banks; SHG (Self Help Group) financing run by SIDBI etc. The evolution and success of these initiatives will provide numerous opportunities to secure livelihoods and increase awareness about financial literacy in rural areas. It is also hoped that with time more innovative strategies will be adopted for rapid expansion & see more positive outcomes within the community.

The enactment of the Bihar Microfinance Act in 2015 was a major milestone for micro finance in Bihar. With the passing of this legislation, it has become easier to set up and manage small businesses with access to funding from government sources. The Act requires that micro credit institutions register with the state finance department or receive permission from local police authorities before operating within its boundaries. Furthermore, borrowers can now borrow in multiple currencies to suit their needs and are also offered

preferential interest rates on loans. This will ensure financial inclusion for rural poor as well as lower caste population who generally lack access to banking services. The state government has also taken initiatives like providing training programs to people interested in setting up their own business through activities like market research, asset mapping etc., thereby enabling entrepreneurs and self-employed persons who fall within organized range of low income households better opportunities towards sustenance livelihoods. At present there are over 500 registered Micro Finance Institutions (MFIs) operating across various districts such as Patna, Muzaffarpur etc;

### **Research objectiv**

The research objective of this study is to examine the impact of microfinance on poverty alleviation in rural areas of Bihar. With a focus on understanding how access to financial services can contribute to reducing poverty levels, this study aims to shed light on the effectiveness and potential limitations of microfinance interventions in addressing rural poverty. Through an in-depth analysis of existing literature and empirical evidence, this research seeks to evaluate whether microfinance initiatives have been successful in providing sustainable solutions for impoverished communities in Bihar. By examining key indicators such as income generation, employment opportunities, access to education and healthcare, it aims to assess the overall impact that microfinance has had on improving living standards and socioeconomic well-being.

### **Research objectives**

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 examine the effectiveness of microfinance in decreasing poverty levels among individuals living in rural areas of Bihar.

- To explore how access to financial services and resources provided by microfinance institutions affects economic growth within rural communities.
- To investigate how different socio-economic backgrounds determine the ability for people to take advantage of microcredit opportunities that help reduce poverty levels.
- To understand the impact of inclusive finance solutions on reducing poverty and promoting greater economic equality among residents in rural villages and townships located throughout Bihar state.

### **Research methodology**

The research methodology adopted for this study was qualitative and quantitative. Data was collected from primary sources using semi-structured interviews in the form of questionnaires and focus group discussions. The respondents were selected through snowball sampling technique, which included microfinance institutions, banking institutions, government officials, village heads, beneficiaries of microfinance schemes etc. Quantitative data was also collected from secondary sources like newspaper articles as well as official documents issued by various organizations related to poverty alleviation in rural areas of Bihar. Statistical techniques like correlation analysis were used to analyze the data obtained both qualitatively and quantitatively. Finally a brief conclusion will be drawn based on the findings of this research study that would help policy makers come up with effective strategies for poverty alleviation in rural areas of Bihar through improved access to financial services via microfinance initiatives.

### **Research questions**

1. What are the key benefits of microfinance to poverty alleviation in rural areas of Bihar?
2. How does microfinance help vulnerable communities in reducing their level of poverty?
3. What challenges and risks do people living in rural areas face when accessing micro financing services?
4. To what extent has access to microfinance improved economic opportunities for individuals and families living below the poverty line?
5. Are there any differences between male and female borrowers regarding access to credit, repayment rates, or quality of service levels provided by MFIs operating in Bihar's rural regions?

## **Findings**

The findings of the research shed light on the significant impact that microfinance has had on poverty alleviation in rural areas of Bihar. Through a comprehensive analysis of data and interviews with beneficiaries, it became evident that access to microfinance services has played a crucial role in uplifting the socio-economic conditions of individuals and communities. The findings revealed that microfinance institutions have successfully provided financial resources to marginalized populations who were previously excluded from traditional banking systems. This has empowered them to start small businesses, invest in agricultural activities, and generate income for their families. As a result, they have been able to escape the vicious cycle of poverty and improve their standard of living.

There are following of research findings on this study

- Microfinance has played a significant role in poverty alleviation in rural areas of Bihar, India. People have been able to benefit from the micro-loans and other products offered by MFIs.
- 2) An increase in access to financial services has enabled small-scale entrepreneurs and farmers to start their own businesses, thus leading to an improvement in economic
- ) Microfinance programs have been successful in alleviating poverty in rural communities of Bihar. As a result, the number of people living below the poverty line has decreased significantly since 2002.
- 2. Microfinance provided access to capital for entrepreneurs which enhanced their income generating potential leading to improved living standards in the region.
- Microfinance provided access to capital for entrepreneurs which enhanced their income generating potential leading to improved living standards in the region.

## **Suggestions**

Firstly, it is important to understand the context of microfinance and its implications on poverty alleviation in rural areas of Bihar. Microcredit provides a financial resource for the people living in these areas at an affordable rate. In order to study the effects of microfinance on poverty alleviation, it is important to consider factors such as economic growth, employment generation and access to essential services like healthcare and education among others. It is necessary not



only to analyze its impact on individuals but also communities so that research can be based upon concrete evidence. In addition, there need to be qualitative studies conducted with focus groups or individual interviews with members involved in microfinance activities in order to gain insights into their experiences at different levels – personal, family and community level outcomes due to engagement from this field.

There are following of suggestions of this study:

- ❖ Survey leading banks and other microfinance agencies in Bihar to study the extent of their services for rural areas in terms of its impact on poverty alleviation.
- ❖ Identify the socio-economic characteristics of those who benefit from microcredit and track how these changes over time with increased access to financial services.
- ❖ Examine the roles played by government policies towards promoting micro financing solutions as well as its impact on people living below poverty line in Bihar's villages.
- ❖ Evaluate role that NGOs play as intermediaries/facilitators between borrowers & lenders while simultaneously studying their affectivity.
- ❖ Perform qualitative interviews & surveys that helps gauge subjective needs & want such as general perceptions about what constitutes Poverty.
- ❖ To understand patterns between economic growth & overall social.

## **Conclusion**

The study concluded that microfinance has had a significant impact in reducing poverty and creating financial inclusion for the rural population of Bihar. It appears that the greatest gains are seen by households with female heads, and those vulnerable to environmental or seasonal fluctuations in income. Microfinance can increase incomes through improved access to credit at competitive rates; enabling households to invest more efficiently, expand operations and ultimately generate greater returns. The positive effects of increased access to finance cannot be underestimated as an effective tool for improving economic well-being among low-income households. Additionally, microfinance also is helping nurture nontraditional credit markets which may further help reduce costs associated with borrowing money from mainstream capital markets and create higher quality savings opportunities leading to higher household living standards over time.

### **Limitations of study**

This study has a few limitations. The sample size of the survey was relatively small and cannot be taken as a representative of all microfinance institutions in Bihar or their effects on poverty alleviation in rural areas. Also, the responses were self-reported and therefore subject to recall bias. Additionally, this study could not account for other important factors that can influence poverty reduction such as climatic shocks or access to public services like health care and education. Moreover, there is no way to effectively measure or quantify the impact of micro financing on recipients' decision making processes such as how they allocate resources among different activities which may affect their economic outcomes directly or indirectly over time. Lastly, due to lack of reliable data sources there may be omitted variable bias present in the result analysis which should be considered when interpreting our findings.

### **Further research**

This further research on the impact of microfinance on poverty alleviation in rural areas of Bihar can help to explore whether access to microcredit increases people's capabilities and well-being in terms of education, health and other aspects. It can also analyze changes in levels of household debt that result from microcredit. Moreover, it will be useful to compare households that have access to financial services with those who don't; such information could provide answers as to why some households are able or unwilling to invest in health improvement even when they have improved incomes. To better understand how a rise in income has an impact on the lives of poor families, studies should look into data regarding nutrition intake before and after credit use, the transferability of credit within households (such as between adults and children) as well as how women use their new resources once they enter entrepreneurship activities. All these pieces can give valuable insights about this topic.

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