

# **Impact of Microfinance in Poverty Alleviation a Comparative Study of U.P and Bihar**

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## **Abstract**

“Poverty in Bihar: Pattern, Dimensions And Eradication Strategies” held in Patna from 18th to 20th April 2010, organised by the Institute for Human Development, New Delhi in partnership with the Asian Development Research Institute (ADRI) and the United Nations Development Programme (UNDP). The seminar made valuable contributions to the ongoing efforts of the Bihar government towards poverty alleviation. Inaugurated by the Chief Minister of Bihar, Mr. Nitish Kumar, the three-day seminar was a part of the Institute for Human Development’s Research Programme on Inclusive Development in Bihar. Its key objective was to analyse the nature and pattern of poverty in Bihar, discuss the issues relating to its measurement and identification, and suggest an effective and innovative strategy for its eradication. A galaxy of scholars, policy-makers and practitioners presented papers and discussed a wide variety of issues such as identifying the poor, key dimensions of poverty in Bihar, gender disparities, experiences and success stories in poverty reduction in India, development paths for poverty reduction, the framework for State intervention, whether targeted schemes and programmes reach the poor and the excluded, and strategies, priorities and prospects for poverty reduction in Bihar.

These discussions were spread over nine sessions in three days and included an international round table on the experiences and success stories in poverty reduction. We express our gratitude to the paper presenters, discussants, chairpersons and participants at the seminar for their very rich and meaningful interventions. As the seminar was held early in the life of the IHD’s Bihar Research Programme, the discussions and deliberations therein would greatly contribute towards shaping the Programme. We are grateful to our adviser, Ms. Janine Rodgers for detailed discussions, her expert inputs and involvement at every stage of this seminar. We also express our gratitude to our colleagues at ADRI, led by Dr. Shaibal Gupta, Dr. P.P. Ghosh and Dr. Sunita Lal for their unstinted support in the organisation of the seminar.

## **I Introduction**

Micro finance is a small-scale financial service given by financial institutions to the disadvantaged. Savings, credit, insurance, leasing, money transfer, and other financial services are examples of these services, which are supplied to customers to suit their financial needs. Despite the expansion of organized banking in rural areas, the bulk of poor people remained outside of the formal banking system. As a result, the quest for an alternate delivery mechanism to meet the financial needs of the poor, particularly the women in such households, began. Prof Muhammad Yunus, the creator of Bangladesh's Grameen Bank, has stated, "If we can come up with a mechanism that provides everyone access to credit while insuring excellent repayment- I can assure you that poverty will not continue long."

SHG is a group of ten to twenty people from the same social class who gather together to solve a common problem. They regularly gather voluntary contributions and combine their resources to make small interest-bearing loans to their members. Rural women's SHGs are made up of poor members who have little savings and rely on the local money lender to fund their consumption and social commitments. Women's participation in SHGs set the path for the development of economic standards and, as a result, confidence.

Micro finance is divided into two major models: Self-Help-Group-Bank Linkage (SHG-BL) and Micro Finance Institutions (MFIs). In 1992, the SHG Banking Linkage programme was established with the goal of facilitating the flow of bank credits to SHGs NABARD, in cooperation with the RBI, started a pilot initiative in 1991-92 to link roughly 500 SHGs with the bank, and has encouraged banks to engage actively.

The RBI formed a working group of NGOs and SHGs in 1994. The reserve bank indicated that banks' financing of SHGs would be counted as part of their lending to weaker sectors, and that such lendings should be evaluated by banks at the state level, Bankers Committee level, on a regular basis, based on the group's advice. Microfinance is the provision of financial services to low-income clients, such as consumers and small business owners, who have traditionally been denied access to banking and related services. It is a movement whose goal is "to create a world in which as many poor and near-poor households as possible have permanent access to an acceptable range of high-quality financial services, including not only credit but also savings, insurance, and fund transfers." Those who support microfinance believe that having access to it will help impoverished people get out of poverty. Bihar's economic growth, which surpassed 14% in the previous fiscal year, continues to resist the recessionary factors that are afflicting India. However, the government's capacity to transfer this phenomenal growth into poverty reduction hinges on its ability to do so.

As a result, special programmes targeting poverty were created in the 1970s. Since then, a slew of poverty-relieving initiatives have cropped up from time to time. These programmes were constantly reviewed to assess their performance, and any necessary changes were made as needed. At the start of the 1990s, it became clear that a plethora of programmes were obstructing an effective and efficient fight against poverty. As a result of this realisation, many anti-poverty programmes were comprehensively rationalized. In addition to the Indira Awaas Yojana, two major poverty alleviation programmes emerged as a result of programme rationalization and restructuring: the Swarnajayanti Gram Swarozgar Yojana (SGSY), which is a self-employment programme, and the Sampoorna Gramin Rozgar Yojana (SGRY), which is a wage employment programme. Because only two self-help groups had been formed in one of the research regions, and these, too, had not begun regular activity, the study focused primarily on individual beneficiaries.

Microcredit focuses on providing credit to low-income clients in the form of modest loans for microbusinesses and other income-generating activities. The phrase "microcredit" is frequently associated with an insufficient amount of savings for the poor. In most cases, providing savings services in microcredit programmes basically entails the collecting of mandatory deposit amounts intended solely to secure such loans. Additional voluntary savings may accumulate, but clients' access to their forced savings is limited. In financial institutions, these savings become the primary source of capital.

## II.Literature Review

Bihar is India's second-largest state in terms of population and eleventh-largest in terms of area. With only 2.8 percent of the country's land mass, it sustains 8.8% of the country's people. During the previous decade, the state underwent enormous socio economic upheavals. Among the most important

Bihar had the highest population increase (25 percent) and population growth (25 percent) of all the states in the country.

During the recent decade, the density has increased to 1102./sq.km. It has the lowest literacy percentage (64%) in the country. However, in the previous four years, the number of girls enrolled in school has climbed by more than double. Bihar. In the last three years (2009, 2010 and 2012), there has been insufficient rainfall, however this has not been the case. There has been a significant drop in agricultural production, reflecting the farming sector's resiliency. Agriculture is a vital industry since it provides food for the world's population.

The proceedings of the international conference "Poverty in Bihar: Pattern, Dimensions, and Eradication Strategies," held in Patna from April 18 to 20, 2010, are summarised in this report. New Delhi Development, in collaboration with the Asian Development Bank, the African Development Research Institute (ADRI) and the United Nations Development Programme (UNDP) a programme (UNDP). The seminar produced significant contributions to the field. The Bihar government's attempts to alleviate poverty are still underway. The project was inaugurated by Mr. Nitish Kumar, the Chief Minister of Bihar. The Institute for Human Development hosted a three-day conference. In Bihar, there is a research programme on inclusive development. Its main goal is to examine the nature and pattern of poverty in Bihar, as well as to discuss possible solutions. challenges connected to its measurement and identification, as well as a proposal for a solution efficient and This report summarises the proceedings of the international conference "Poverty in Bihar: Pattern, Dimensions, and Eradication Strategies," which took place in Patna from April 18 to 20, 2010. New Delhi Development, in conjunction with the Asian Development Bank, is launching a new initiative. The African Development Research Institute (ADRI) and the United Nations Development Programme (UNDP) are two organisations that work together to promote development in Africa (UNDP) a television show (UNDP). The lecture resulted in significant advancements in the discipline. The government of Bihar is still working to relieve poverty. Mr. Nitish Kumar, the Chief Minister of Bihar, officially launched the project.

At ADRI, the contribution of Mr. Surya Kant Pandey and Mr. Sudip Pandey deserves special acknowledgement. We would like to thank Ms. Prema Gera and Ms. Mona Mishra of the UNDP for helping us at every stage of the seminar. A special word of thanks to the IHD team of Ms. Amrita Datta, Ms. Joyita Ghose, Ms. Kasturi Mazumdar and Mr. Ashwani Kumar, who worked hard in the coordination of the seminar.

### III. Method

The permanent settlement regime imposed by the colonial government sowed the seeds of Bihar's decline, and continues to hinder its development even now (see Banerjee & Iyer 2005). Even after the independence, the central government adopted several discriminatory policies such as freight equalisation, which led to the further economic marginalisation of Bihar. Successive state governments in Bihar also contributed to its economic decline by plundering public resources and ignoring the state's developmental needs.

Bihar's average economic growth since 2005, when the current government came to power, has been more than 11 per cent, which is often termed a 'miracle' considering the extremely low level of economic growth under previous regimes. This spectacular economic progress has, however, recently been questioned for its negligible impact on poverty reduction (Acharya, 2013).

According to National Sample Survey (NSS) data, the percentage of people living below the poverty line (BPL) was 54.5 per cent in 2004-05, which reduced only marginally to 53.5 per cent in 2009-10. This is surprising as many states with lower economic growth saw much higher poverty reduction during this period. While many commentators use this evidence to jump to the conclusion that Bihar has pursued a growth model that benefitted only the rich, a closer look at the data suggest that it would be a mistake to take the poverty figures of 2009-10 seriously. This is mainly because 2009 was not a 'normal' year as Bihar (and many other states) faced severe drought that resulted in 11 per cent reduction in agricultural output, which in turn lowered the income level of around 76 per cent of households that are dependent on agriculture and allied activities for their livelihood.

Poverty estimates based on the 2011-12 round of NSS data, recently released by the Planning Commission of India, is consistent with this hypothesis. It shows that percentage of BPL population in Bihar is only 33.74 per cent, which means a massive 20 percentage point reduction within two years. This is incredibly high and can be true only if 2009-10 was an outlier year.

### IV.Objectives

The first five-year plan, which ran from 1951 to 1956, was primarily concerned with agriculture and irrigation, with the goal of ensuring a well-balanced development.

The Second Five-Year Plan (1956-1961) emphasised the expansion of basic and heavy industries, increased employment possibilities, and a 25% increase in national income.

The Third Five-Year Plan (from 1961 to 1966): The third five-year plan was a complete failure due to Chinese aggressiveness in 1962, the Indo-Pak war in 1965, and the worst drought in history. From 1966 to 1969, three annual plans were in place to replace it.

The Fourth Five-Year Plan (1966-1974) aimed to increase national income by 5.5%, create economic stability, reduce income inequalities, and achieve social justice through equality.

Five-Year Plan No. 5 (1974-1979): This strategy was primarily focused on eradicating poverty (Garibi Hatao) and moving huge segments of the disadvantaged population above the poverty line. It also guaranteed a monthly minimum income of Rs. 40 per individual, based on 1972-73 costs. When the Janata Government came to office in 1978, rather than 1979, the plan was terminated.

The Sixth Five-Year Plan (from 1980 to 1985): The sixth five-year plan's principal goal was to eradicate poverty, with a particular emphasis on economic growth, job creation, technological self-sufficiency, and improving the living standards of the poor.

Seventh Five-Year Plan (1985-90): The Seventh Five-Year Plan aims to improve the poor's living standards while also reducing the incidence of poverty.

The Eighth Five-Year Plan (1992-97) was designed to increase employment, but it fell short of most of its goals.

The ninth five-year plan, which ran from 1997 to 2002, focused on agriculture, employment, poverty, and infrastructure.

The tenth five-year plan (2002-2007) aims to reduce poverty from 26% to 21% by 2007, as well as to assist children in completing five years of schooling by 2007.

Eleventh Five-Year Plan (2007-2012): The eleventh five-year plan aims to reduce poverty by ten percentage points, create 7 crore new job opportunities, and link all villages to electricity.

## V.Conclusion

SHGs have shown to be an effective strategy for forming groups of rural women and encouraging savings in order to acquire access to institutional loans for socioeconomic development and empowerment. Women's issues, SHG initiatives, and credit lending must be prioritised so that they can compete with their male counterparts in contributing to the nation's economic development.

India continues to have the world's greatest population of poor people, with roughly 37% of the population living in poverty. Poverty levels are high, and as a result, the Self Help Groups movement plays an important role in poverty reduction and women's empowerment for poor people. Microfinance programmes are essential institutional devices for giving modest loans to rural people in order to alleviate poverty, and SHG bank connection has the ability to reduce the difficulties of poor people's lack of access to banking services. SHGs have been shown in numerous studies to have instilled saving habits in the impoverished. Many studies show that expanding access to microcredit for the poor through the SHG bank linkage programme will enable rural residents to engage in more productive activities and reduce their reliance on money lenders. However, despite the remarkable figures of micro-finance in India as seen in the tables, It is still insufficient to have a significant impact on poverty reduction. However, India's experience with microfinance and SHGs has proved that this technique is effective in combating poverty in developing and undeveloped countries.

Microcredit and microfinance have gained widespread acceptance as a poverty-reduction and economic empowerment method. Microfinance is a tool for overcoming poverty, particularly in rural areas, where the majority of the world's poor live. Poor folks can start their own small business by obtaining small sums of credit at acceptable interest rates. Many studies suggest that poor people are more trustworthy than traditional borrowers, with better repayment rates.



Poor people can earn more, develop assets, and protect themselves from external shocks when they have access to financial services. Poor families utilise microfinance to transition from day-to-day survival to long-term planning, investing in improved nutrition, housing, health, and education.

Because there aren't enough strong institutions to provide such services, most impoverished people can't acquire decent financial services that fulfil their demands. Strong institutions must be able to recoup their costs. Recovery of costs is not a goal in and of itself. Rather, it is the only option to achieve scale and effect beyond what can be funded by donors.

In the long run, a financially viable institution can continue and extend its services. Lowering transaction costs, providing more useful services to clients, and discovering new ways to give financial services to the poor are all part of achieving sustainability. Finally, it is important to note that poor people who do not have a source of income or a method of repayment require additional forms of assistance before they can make good use of the loan. Other options, such as minor donations, job and training programmes, or infrastructural improvements, will often reduce poverty more effectively. Such services should be combined with building savings whenever possible.

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