

Role of Microfinance in Financial Inclusion in Bihar- A Case Study

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Abstract: Microfinance refers to small savings, credit and insurance services extended to socially and economically disadvantaged segments of society. Microfinance provides financial products and services to masses especially underprivileged and disadvantaged people at an affordable terms and conditions. Over the years it has emerged as a powerful tool for financial inclusion in India. Financial inclusion is a new paradigm of economic growth that plays major role in driving away poverty from state like Bihar. Financial inclusion is the top priority of any developing or backward state like Bihar in terms of economic growth and advancement of society. It enables to reduce the gap between rich and poor people. Presence of sound financial system is a symbol of the robust pillar of growth, economic prosperity and overall development of any economy. The present study aims to examine the impact of microfinance on growth of the state economy over a period of ten years. Secondary data has been used which has been analyzed by multiple regression model as a main statistical tool. Results of the study found negative and insignificant impact of total client outreach and credit growth of microfinance on the GSDP of the Bihar, whereas Total savings growth was found to have positive and significant impact on the GSDP of Bihar. So, to make microfinance impact visible on the state economy all suggestion previously recommended by NABARD should be taken as well as proper regulation should be brought to give other forms of MFIs like NGOs, Trust, Societies (except NBFCs) a greater role to play. It will also be interesting to see the role of small payment banks and small finance banks in the growth of microfinance in the state like Bihar.

Keywords: Microfinance, Financial Inclusion, Gross State Domestic Product

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I. Introduction

To the poor, the state is both an enemy and a friend. It tantalises them with a ladder that promises to lift them out of poverty, but it habitually kick them in the teeth when they turn to it for help. It inspires both fear and promise. To India's poor the state is like an abusive father whom you can never abandon. It is through you that his sins are likely to live on.

Edward Luce, *In Spite of the Gods*, 2006

"The poor stay poor, not because they are lazy but because they have no access to capital".-

Milton Friedman

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, 1999 as "provision 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, organising 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 & Role of 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 the process of ensuring access to appropriate financial products and services needed by all sections of society including vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players” (Chakraborty, 2013).

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:

- i. 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).
- ii. Mandated Commercial Banks including Regional Rural Banks to migrate to the Core Banking Platform.
- iii. Substantially liberalised the BC based service delivery model in phases.
- iv. Permitted domestic scheduled commercial banks to freely open branches in Tier 2 to Tier 6 centres.
- v. Mandated banks to open at least 25% of all new branches in unbanked rural centres.
- vi. Substantially relaxed the Know Your Customer (KYC) documentation requirements for opening bank accounts for small customers.
- vii. Encouraged Electronic Benefit Transfer for routing social security payments through the banking channel.
- viii. 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.

II. Review of Literature

It is important in any research study to review the previous works which has already been done on the subject matter for a proper scrutiny of research gap. Committee on financial inclusion in 2008 (Rangarajan Committee) observed that financial inclusion to hitherto excluded segments of the population was critical to sustain and accelerate growth momentum. For achievement of the objective, the committee had put forward multi-pronged strategies which includes establishment of National mission on financial inclusion, revitalizing the RRBs and Co-operatives, introducing MFI model (SHG- bank linkage) and Business Facilitator and Business Correspondents Model.

Mukherjee and Chakraborty (2012) studied the role and efficiency of the commercial banks in Jharkhand state with their capacity and role of institutions like regional rural banks (RRBs), Self-Help Groups (SHGs), non-banking financial companies (NBFCs) for the purpose of promoting financial inclusion.

Uma and Rupa (2013) made an attempt to examine the role of SHGs in financial inclusion and reflected the positive relationship between SHGs membership and financial inclusion. The study reveals that after the membership to SHGs there was increase in the number of bank accounts, credit availed by the members and annual repayments of loan also shown positive trend.

Rajaram (2001) in his paper 'An Informal Journey through Self- Help Groups' observes that micro financing through informal group has effected quite a few benefits: (i) savings mobilized by poor (ii) access to the required amount of appropriate credit by the poor (iii) matching demand and supply of credit structure and opening of new market for Financial Institutions (iv) reduction in transaction cost for both borrowers and lenders (v) heralding a new realization of subsidy –less corruption –less credit and (vi) remarkable empowerment of poor women.

Gireesh (2005) in his article ' Microfinance in India- A Viable Option for Vulnerable Sections' points out that the Micro Finance sector must grow beyond meeting survival credit/subsistence credit needs of the poor and provide for sustainable livelihoods. He states that Microfinance is a definite path towards empowering the marginalized among the poor to take charge of their life cycle related requirements. Microfinance has demonstrated the potential of building the social capital of poorest communities.

III. Research Gap

Microfinance is an important element in financial inclusion strategy of government and Reserve Bank of India (RBI). It helps in the overall economic development of the underprivileged (poor) population in an economy. Bihar is one the poorest states of India. 33.7 % of population still lives below poverty line in the state. So, in India especially in states like Bihar an effective financial inclusion is needed for the upliftment of the poor and disadvantaged people by providing them the modified financial products and services. Some studies are done on contribution of SHGs in growth of economy. A few studies have analyzed the impact of microfinance as a prominent financial inclusion tool on the economic growth of an economy. Though, none of the studies were Bihar specific. With this backdrop, the present research study is an attempt to find out the present scenario of microfinance in Bihar and assessing its role of microfinance in the economic growth of Bihar.

IV. Research Objective

Researcher asks few questions through research objective regarding the validity of subject matter. In present study, researcher has identified following objectives of the research:

1. To examine present scenario of microfinance in Bihar.
2. To investigate the major factors affecting access to microfinance in Bihar.
3. To study the impact of microfinance indicators on growth of economy of Bihar.

V. Research Methodology

This study is based on secondary data that was mainly collected from Report of RBI, NABARD Annual Report on 'Status of Microfinance in India', Sa-Dhan Annual Reports on Microfinance, Economic Survey of Bihar, State Level Banker's Committee Report (Bihar) Research Journals, E-journals, Books and Magazines, . Various websites were also used like RBI, NABARD, and Sa-Dhan etc. The period under consideration for the study is ten years from 2006-07 to 2015-16. Data has been analyzed by applying multiple regressions as a main statistical tool. Multiple regression analysis has been used to establish an empirical relationship between microfinance and growth of the country. The present study taking Gross State Domestic Product (GSDP) at current price as a dependent variable and independent variables are Client Outreached by microfinance, Gross Loan Portfolio of microfinance in Bihar, and Total Savings by microfinance institutions in Bihar.

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Where, Y = Gross State Domestic Products (GSDP)

X1 = Number of Microfinance Client Outreached

X2 = Gross Loan Portfolio

X3 = Total Savings by Microfinance Institutions

VI. Hypothesis

On the basis of the objective of the study, following hypothesis has been formulated:

H₀1: There is no significant impact of microfinance on the GDP of Bihar.

H_A1: There is a significant impact of microfinance on the GDP of Bihar.

Sub-hypotheses:

H₀1.1 There is no significant impact of no. of client outreach in microfinance on Bihar GDP.

H_A1.1 There is a significant impact of no. of client outreach in microfinance on Bihar GDP.

H₀1.2 There is no significant impact of credit growth of microfinance on Bihar GDP.

H_A1.2 There is a significant impact of credit growth of microfinance on Bihar GDP.

H₀1.3 There is no significant impact of savings growth of microfinance on Bihar GDP.

H_A1.3 There is a significant impact of savings growth of microfinance on Bihar GDP.

VII. 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 these SHGs were Rs. 360 crore and a total bank credit of Rs. 611 Crore was made available to these SHGs during 2015-16.

Table1. 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	1600
Bihar	279	360	611	Odisha	487	486	860
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	294
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 2: 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	1669	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	3621000
Gross Loan Portfolio(Rs. Lakh)	8539.57	10857.3	14042.4	16967.6	89814.2	102676	100248
Savings of SHGs with Banks (Rs. Crore)	81.69	108.57	140.42	169.64	164.66	280.45	360.06

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

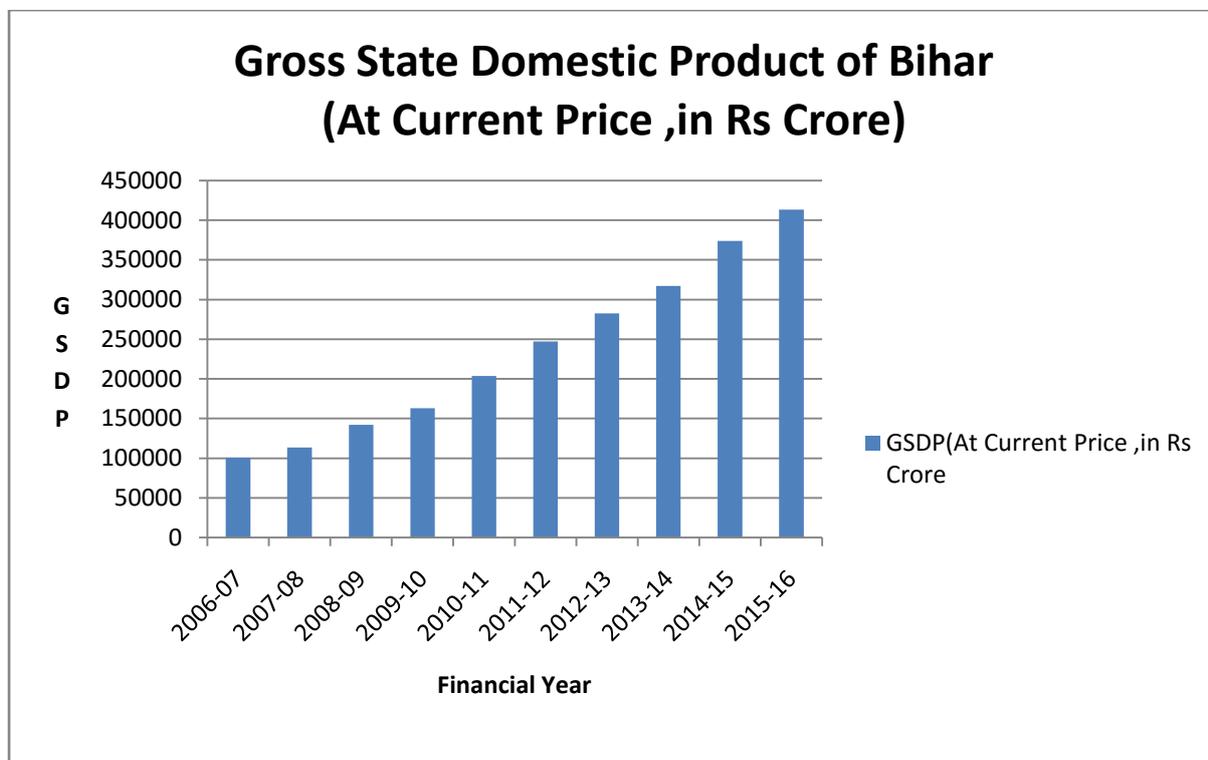
Table 2 presents growth trends of microfinance models in Bihar over the years. As of March, 2016, MFIs covered 24 lakh households, whereas bank linkage SHG coverage in rural Bihar reached to 36.21 lakh households. Total Gross loan portfolio in MFIs segment reached to Rs. 3526 Crore and Rs. 1002.48 Crore 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.

VIII. Data Analysis

According to **Chithra & Selvam (2013) & Kamboj (2014)**, GDP is an important economic indicator to find out the growth of a country and it is widely used by researchers. Likewise GSDP is an indicator to find out the growth of a state economy. It helps in finding even contribution of a sector in economy by assessing sector’s impact on the GDP of the state economy. In present study, researcher has tried to assess the impact of microfinance on state economy with proposed model.

Figure.1 illustrates Gross State Domestic Product (GSDP) of Bihar during a period of ten years starting from the financial year 2006-07 to the financial year 2015-16. GSDP has been on continuous increase during these financial years. GDP shows 25 % growth in the year 2008-09 & 2010-11 which is highest growth over the period of time.

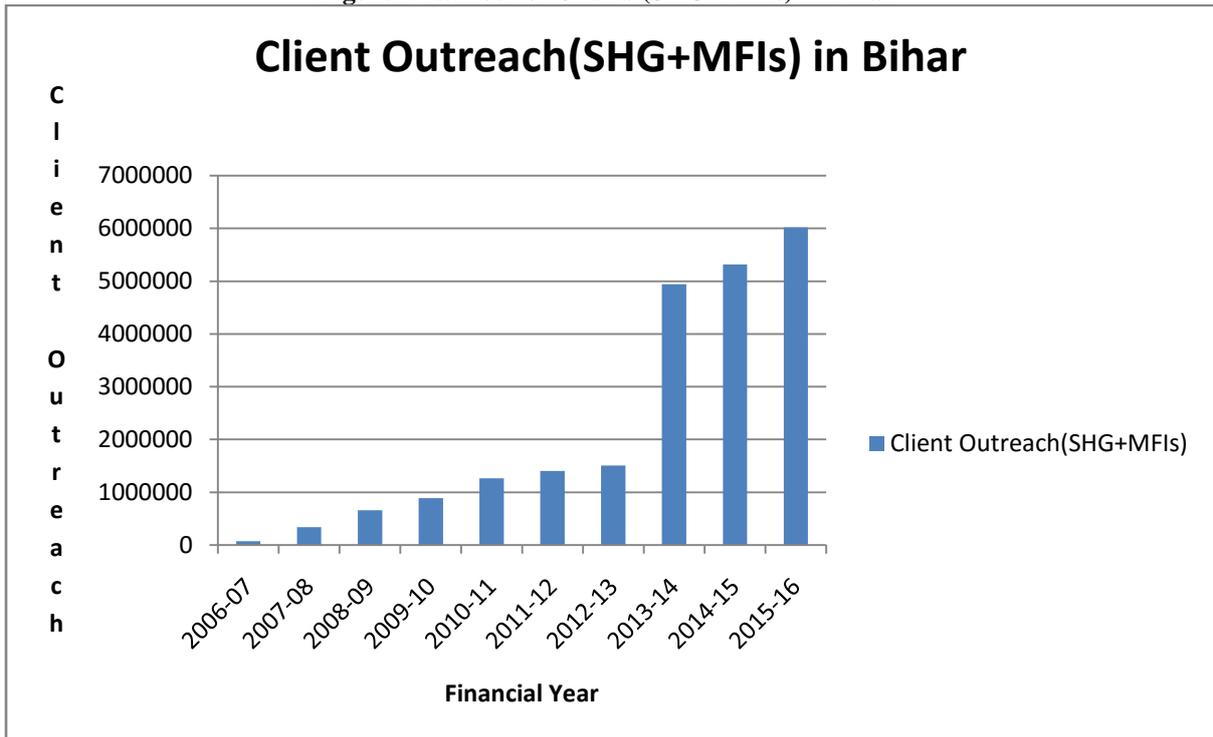
Figure1: Gross State Domestic Product (GSDP)



(Source: Prepared by Author)

Figure.2 shows no. of combined client outreach (SHGs+ MFIs) in Bihar for last ten years. It is clear from the graph that client showing an increasing trend over the years. There were 72638 clients in 2006-07 that has been increased up to 60, 21,000 in 2015-16. The highest growth (362%) has been marked during the year 2007-08. Another high growth in client outreach was marked in the year 2013-14 (228%).

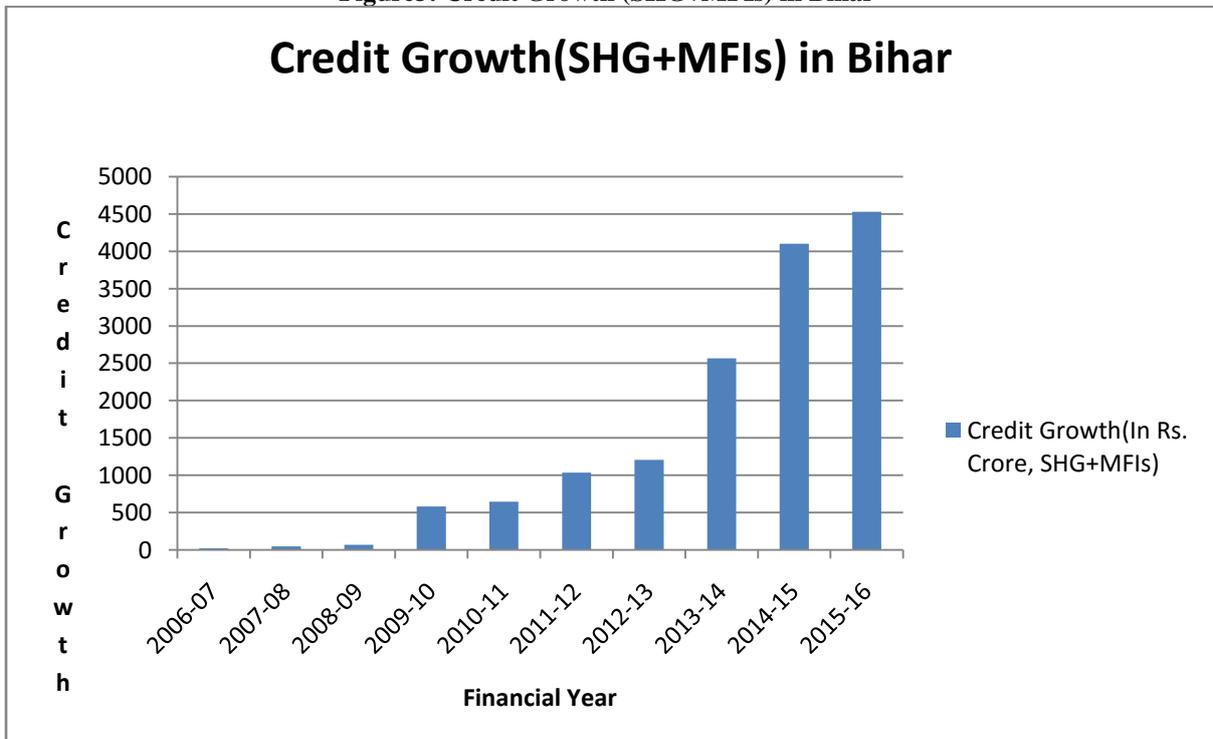
Figure2: Number of Clients (SHG+MFIs) in Bihar



Source: Prepared by Author)

Figure.3 shows the combined Credit growth of MFIs and SHGs in Bihar. The number of SHGs and MFIs has been continuously increasing from the financial year 2006-07 to 2015-16. 756% credit growth (highest for given period) has been noticed for the financial year 2009-10. Minimum growth rate has been observed in financial year 2015-16(only 10%).

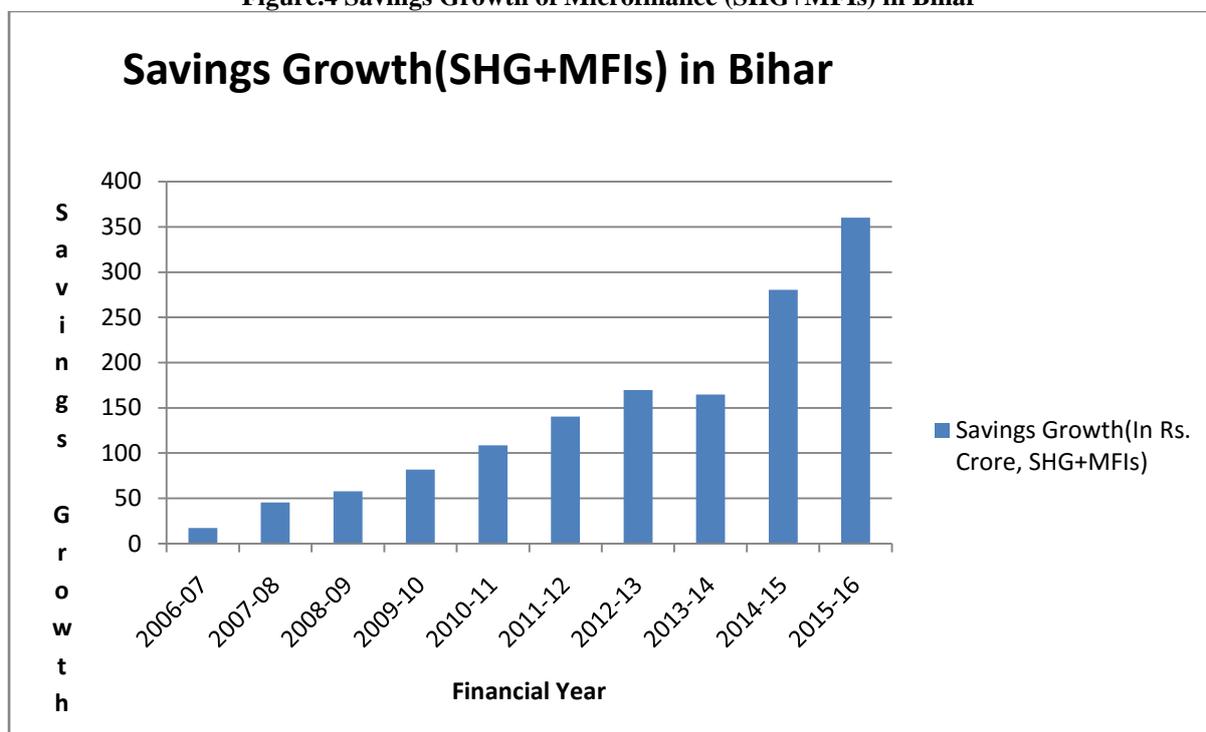
Figure3: Credit Growth (SHG+MFIs) in Bihar



(Source: Prepared by Author)

Figure.4 demonstrates the combined growth (SHGs+ MFIs) in Bihar from 2006-07 to 2015-16. The remarkable growth has been observed during 2007-08 and maximum decline observed in 2013-14(negative growth of -3%).

Figure.4 Savings Growth of Microfinance (SHG+MFIs) in Bihar



(Source: Prepared by Author)

Variable of the Study: The present study taking Gross State Domestic Product (GSDP) at current price as a dependent variable and independent variables are Client Outreached by microfinance, Gross Loan Portfolio of microfinance in Bihar, and Total Savings by microfinance institutions in Bihar. Based on these variables Table 3 has been compiled for further analysis and to test the proposed hypothesis.

Table 3: Variables of the Study

Financial Year	GSDP(At Current Price ,in Rs Crore	Client Outreach(SHG+MFIs)	Credit Growth(In Rs. Crore, SHG+MFIs)	Savings Growth(In Rs. Crore, SHG+MFIs)
2006-07	100737	72638	23.34	17.28
2007-08	113680	335869	45.62	45.62
2008-09	142279	660005	67.88	57.95
2009-10	162923	890824	581.39	81.69
2010-11	203555	1267197	645.57	108.57
2011-12	247144	1405113	1035.42	140.42
2012-13	282368	1505113	1205.67	169.64
2013-14	317101	4940000	2567.14	164.66
2014-15	373920	5318000	4102.75	280.45
2015-16	413503	6021000	4528.47	360.06

Source: Compiled on the basis of different publication of Govt. of Bihar, NABARD & Sa-Dhan ('SRO' recognized by RBI)

Table 4					
Results of regression analysis: model summary.					
R	R square	Adjusted R square	F	Sig.	Durbin-Watson
0.982	0.963	0.945	52.685	0.000	1.030

Source: SPSS

Table 5					
Regression Coefficients					
Variables	Unstandardized coefficients B	Standardized coefficients Beta	t -value	Sig.	H0 rejected/accepted
Constant	79925.736		3.391	0.015	
Growth in Client Outreach	0.036	0.744	1.804	0.121	Accepted
Credit Growth	-49.897	-0.764	-1.210	0.272	Accepted
Savings Growth	1043.172	1.028	3.093	0.021	Rejected

Dependent Variable: GSDP; Source: SPSS

Table 4 indicates the model summary of multiple regression analysis which is carried out through SPSS. The result of the Model shows that the value of R is .982, which indicates a high correlation between dependent (GSDP) and independent variables. The value of R square is .963 and Adjusted R square is .945. The p value of the model is 0.000 which is less than 0.05 indicating that the regression model is statistically significant and fit model. The value of the Durbin-Watson test less than one or greater than three is not acceptable, as a thumb rule and is indication of autocorrelation problem. The model summary displays the value of Durbin –Watson statistic 1.030 which is free from autocorrelation problem.

Table 5 explains the result of regression analysis for GDP and microfinance indicators, it is to be noted that microfinance variables include client outreach, credit growth size, saving growth size. Results of multiple regression reveals that the beta value of Total Client outreach are 0.036 which shows a positive impact on GSDP. The p value is 0.121 which is greater than 0.05 at 5% level of significance, which indicates that there is a statistically negative insignificant impact on GSDP. It further reveals that the beta value of total credit growth is -49.897 and p value is 0.272 which again shows negative insignificant impact of GSDP, as the p value is more than .05. Moreover, Total Savings growth shows 1043.172 beta value which show positive impact on dependent variable. The p value of Total Saving growth is .021 lesser than .05, which indicates a positive significant impact on GSDP. The following regression equation was obtained:

$$Y = 79925.7 + .036X_1 - 49.897X_2 + 1043.172X_3 + e$$

Therefore, study finds a poor relationship between growth of economy and microfinance indicators in the state of Bihar which is presumed as an important tool in financial inclusion. Except savings of microfinance members, rest other indicators have not done any significant contribution to the state economy.

IX. 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.

X. Recommendations

Researcher has suggested following recommendations based on this pioneer research:

- Areas of concern identified by NABARD should be taken seriously by all players of microfinance in the state and remedial measures should be taken immediately.
- For all microfinance players except NBFCs, there is a need for proper regulations in this segment for better access of all financial product & services by poor people.
- E-banking training & financial literacy programme should be organized extensively. Because microfinance is a big road for state like Bihar to travel to make financial inclusion of the state a complete success.

XI. Suggestions for Future Research

Based on the above mentioned observations in the present study, researcher has suggested following areas for future research:

- One should assess the exact role of NABARD, RBI and Central & State government in the growth of microfinance independently and separately if possible.
- Research should be conducted on the Role of MUDRA in the future growth of microfinance in our country.
- Another area of research could be on Banking Corresponding Model (BC Model), Peer to Peer lending, and Small Finance Bank & Payment Banks possible role in the growth of microfinance as well and its support in financial inclusion of the country should be studied.
- Comparative Analysis on both the prominent model (MFIs & SHG-Bank Linkage Model) of this sector should be performed in terms of profitability & sustainability of the sector.
- How microfinance is helping in achieving the Goal of Sustainable Development Goal (SDG) Agenda 2030 of United Nations, this could also be one more areas of research.

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Key Words

Microfinance

Microfinance is defined as provision of thrift, credit and other financial services and products of very small amount to poor in rural, semi urban and urban areas for enabling them to raise their income level and living standard.

Financial Inclusion

Financial Inclusion refers to a situation where people, in general, have connection with the formal financial institutions through holding saving bank account, credit account, insurance policy etc. It may help the person to have affordable access to financial services like formal savings, credit, payments, insurance, remittance etc.

GSDP

Gross State Domestic Product (**GSDP**) is **defined** as a measure, in monetary terms, of the volume of all goods and services produced within the boundaries of the State during a given period of time, accounted without duplication.

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