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MICROFINANCE AND ECONOMIC DEVELOPMENT: A CASE STUDY OF BIHAR

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ABSTRACT

Micro Finance is an emerging concept which plays a vital role in the development of the lowincome groups. It acts as building block of our economy. It saves people from the inflating rate of interest. However, it also has certain shortcomings which must not be overlooked in a developing economy like India. 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. Economic development is the top priority of any developing or backward state like Bihar in terms of 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 role of microfinance on economic growth and development 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 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.

Keywords: Microfinance, Economic Development, Gross State Domestic Product

INTRODUCTION

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 ruralurban 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.

THE ROLE OF MICROFINANCE IN ECONOMIC DEVELOPMENT

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 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. So, for India it is a matter of utmost importance. The process of economic development is an attempt to bring within the ambit of the organized financial system the weaker and vulnerable sections of society. Economic development is the most important agenda of Government.

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. Economic and social development 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.

LITERATURE REVIEW

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. 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), nonbanking financial companies (NBFCs) for the purpose of promoting economic and social development with 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.

RESEARCH GAP

Microfinance is an important element in economic growth and development 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 economic growth and development 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 economic development 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.

OBJECTIVES

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

HYPOTHESIS

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

H01.1 There is no significant impact of credit growth of microfinance on Bihar GDP.

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

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, Annual Reports on Microfinance, Economic Survey of Bihar, State Level Bankers Committee Report (Bihar) Research Journals, E-journals, Books and Magazines. Various websites were also used like RBI, NABARD, etc. The period under consideration for the study is ten years from 2010-11 to 2019-20. 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 state. The present study taking Gross State Domestic Product (GSDP) at current price as a dependent variable and independent variables are Gross Loan Portfolio of microfinance in Bihar, and Total Savings by microfinance institutions in Bihar.

$$Y = b0+b1X1+b2X2 +e$$

Where, Y = Gross State Domestic Products (GSDP)
X1 = Gross Loan Portfolio
X2 = Total Savings by Microfinance Institutions

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 3.79 lakh SHGs at the end of 2018-19, about 4.3 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 2018-19.

RESULTS AND DISCUSSION

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

In present study, researcher has tried to assess the impact of microfinance on state economy with proposed model.

Table 1: Variables of the Study

Financial Year	GSDP(At Current Price ,in Rs Crore	Credit Growth(In Rs. Crore, SHG+MFIs)	Savings Growth(In Rs. Crore, SHG+MFIs)
2010-11	203555	645.57	108.57
2011-12	247144	1035.42	140.42
2012-13	282368	1205.67	169.64
2013-14	317101	2567.14	164.66
2014-15	373920	4102.75	280.45
2015-16	413503	4528.47	360.06
2016-17	467521	4953.51	395.36
2017-18	521597	5423.69	429.20
2018-19	563742	5941.51	482.74
2019-20	602574	6357.21	519.36

Source: *Compiled on the basis of different publication of Govt. of Bihar and NABARD*

Table 2 Results of Regression Analysis: Model Summary

0.982	0.963	0.945	52.685	0.000	1.030

Source: SPSS

Table 3 Regression Coefficients

Variables	Unstandardized coefficients B	Standardized coefficients Beta	t -value	Sig.	H0 rejected/accepted
Constant	79925.736		3.391	0.015	
Credit Growth	-49.897	-0.764	-1.210	0.021	Rejected
Savings Growth	1043.172	1.028	3.093	0. 272	Accepted

Dependent Variable: GSDP; Source: SPSS

The table 2 highlights 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 0.0210 which is less than 0.05 indicating that the regression model is statistically significant. 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 3 explains the result of regression analysis for GDP and microfinance indicators, it is to be noted that microfinance variables include 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 0.021 which shows significant impact of GSDP, as the p value is less 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 . 272 more than .05 indicates not significant impact on GSDP. The following regression equation was obtained:

$$Y = 79925.7 + .036X1 - 49.897X2 + e$$

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 economic development. Except savings of microfinance members, rest other indicators have not done any significant contribution to the state economy.

CONCLUDING REMARKS

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,