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**Ankita Pandit**  
Research Scholar, Department  
of Commerce, Patliputra  
University, Patna, Bihar,  
India

**Dr. Ranjana Sharma**  
B.D. College, Patna, Bihar,  
India

### Role of microfinance in poverty alleviation: A case study on Patna district

**Ankita Pandit and Dr. Ranjana Sharma**

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#### Abstract

Poverty has been a chronic problem in India and around the globe. A major part of Bihar's population is also affected by acute poverty for decades. Microfinance has been proven to be an effective tool in alleviating poverty in different parts of the world, including India. A lot of experiments have been done by different models of microfinance institutions in Bihar to change the lives of poor and deprived in the state. And these have borne fruits over the years. This paper is focused on the role of microfinance in the Patna district of Bihar. It tries to provide an overview of how microfinance has made weak and poor people confident and bread-winners by providing them financial aids. This paper presents an incisive critique of microfinance in Patna as a full-proven strategy in growth and development of Patna district.

**Keywords:** Microfinance, poverty alleviation, Bihar, Patna

#### Introduction

Government defines microfinance as a collateral-free loan given to a household with income up to Rs 3,00,000/- (annual). It refers to husband, wife, and their unmarried children. Across the country, microfinance is playing a crucial role in pulling people out of poverty by adopting different models. World Bank gives the definition of poverty alleviation as the strategic use of tools such as education, economic development, health, and income distribution to improve the livelihoods of the poorest by government and intentionally approved organizations.

Global poverty is one of the most pressing problems faced by the world today. Poor people are malnourished, having very less access to electricity, education, drinking water, and health services. According to a data by World Bank, around 700 million people live on less than \$2.15 per day. Global poverty reduction was hit severely by the COVID-19 pandemic and its major shocks during 2020-2022, causing three years of lost progress. Underdeveloped or poor countries are struggling hard to cope with the severe impact and to recover. An increase of 23 million people from 2019 has been seen in extreme poverty count around the world as of 712 million in 2022.

#### Poverty in India

Poverty in India is a very complex issue which is impacted by a combination of different economic, social, and political factors. According to analysts from Nobel laureate economists, the importance of addressing social inequalities and investing in education are key aspects.

Access to education and healthcare is necessary to combat poverty in India and sustain economic development. The 2022 Multidimensional Poverty Index Report finds one-third of all poor people in the world live in South Asia, which is around 389 million people. India has a major contribution to these numbers, as it accounts for nearly 70 percent of the increase in extreme poverty. So based on the World Bank's International Poverty Line set at \$3.65, India contributes 40% of the world. There is a little increase in the global poverty rate, moving from 23.6% to 24.1%. State Bank of India has conducted research, published in February 2024. It says that the poverty rate in India has decreased to 4.5-5% in 2022. Household consumption expenditure survey data suggests that rural poverty came down to 7.2% from

**Corresponding Author:**  
**Ankita Pandit**  
Research Scholar, Department  
of Commerce, Patliputra  
University, Patna, Bihar,  
India

25.7 percent in 2011-12, and urban poverty is at 4.6% at present.

### India Poverty Rate over the Years

Below is the table showing the poverty rate in India in past years using the poverty line of \$2.15 or under, data provided by World Bank.

**Table 1:** Showing the poverty rate in India in past years using the poverty line of \$2.15 or under, data provided by World Bank

Year	Poverty Rate in India (in %)
1977	63.11
1983	56.26
1987	50.59
1993	47.64
2004	39.92
2009	32.87
2011	22.53
2015	18.73
2017	13.37
2018	11.03
2019	12.73
2020	14.72
2021	11.9

### Poverty in Bihar

According to the caste survey conducted by Government of Bihar in 2023, Bihar has about 2.49 crore families. Among them more than 99 lakhs (39.13%) live on Rs 6000 or less for a month. One in every three persons in Bihar is poor, which can be in terms of health, education, and standard of living. It has the poorest population in the country with 33.76 percent of its population being multi-dimensionally poor, according to data released by Niti Aayog.

The average unemployment rate of the country stands at 3.2 percent, whereas in Bihar, it is 2.1% as per the Periodic Labour Force Survey. Bihar has India's highest dependency ratio in the country, i.e., 67.1%. This means that almost 70% of the population is dependent on income earned by just 30% of it. Per capita GDP of Bihar is Rs 31,522 (2020-21), which shows a clear picture of weak economic growth of the state. 32 out of 38 state districts in Bihar have a per capita GDP below the state average, and only 6 districts have uplifted the performance of the state. Economic Survey Reports of Bihar (2022-23) show that Patna has the highest per capita income in the state of Rs 1,15,133 lakh, which is nearly four times the state's average.

**Table 2:** Top Performing Districts (Economic Survey 2021-22)

City	(Rs)
Patna	1,31,000
Begusarai	81,400
Munger	44,300
Bhagalpur	35,800
Muzaffarpur	34,800

Source: Indian Express (2023)

**Table 3:** Lowest Performing Districts

City	(Rs)
Sheohar	18,692
Araria	19,527
Sitamarhi	20,631
East Champaran	21,145
Nawada	21,626

Source: Bihar Economic Survey 2022-23

### Microfinance Institutions in Bihar

In Bihar, the first microfinance model to start working in Bihar was a Self-Help Group started in 1988 through Holy Cross Sisters at Tihbara village in West Champaran. This place has a very poor population. Another SHG was formed by PRADAN in Hazaribagh in the same year. SHGs as a model were not a success initially, but with joint efforts of banks and government, it became the most dominant in the market of Bihar. Reserve Bank of India directed banks to provide loans to SHGs without any guarantees in North Bihar for the first time. Following this, the Bank of Maharashtra and Canara Bank were the first two banks to start to give loans to SHGs without any guarantee.

Bihar has seen a flow of microfinance institutions and different models working more so recently. The first microfinance institution introduced in Bihar state was NIDAN. It was established in 1995 following the SHG and cooperative models. Registered under Societies Act, it started its operations in five districts - Patna, Vaishali, Muzaffarpur, Samastipur, and Katihar. It helped people to deal with their basic problems of day-to-day life. It provided aid for child care, education, and overall development of the society. They also basically targeted the women population and other marginalized sections of the society.

Different other models of MFIs started working in different parts of the state. That includes Bandhan in Kishanganj which was based on ASA model of Bangladesh back in 1990s. Cashpor in association with TCI, it was providing its services to people in need. In late 1990s and early 2000s, RBI and NABARD let the credit flow into economy through microfinance institutions, cooperative societies in order to make the economy grow from the non-government level.

### Role of Microfinance in Poverty Alleviation

Microfinance has turned to be the backbone of the poor across the different self-help groups, non-governmental organizations, non-banking financial institutions, commercial banks, international agencies are actively promoting microfinance as a significant poverty alleviation intervention. The sector is also required to be regulated and protected by the government in order to safeguard the stakeholders.

Microfinance is primarily focused on marginalized people in the society like women, poor, SCs, etc. It does not actually create jobs for the needy people; rather, it provides opportunities by giving them credit/loans to create works for themselves and be independent. This indirect allowance helps poor people to participate directly in economic.

System of the country, rather increase their life conditions and also help others to grow as well. By availing credit from microfinance institutions, poor and needy people gain confidence to develop their own small-scale business on their own in their choice of preferred and proffered sectors. Agriculture and allied activities along with MSME, etc. is the biggest sector to gain from it microcredit.

Agricultural activities are mostly afflicted by the weather. Excessive heat, cold, rainfall, cyclones, etc. have a greater impact on agriculture, in the form of destroyed crops, death, massive loss of livestock. Low MSP by government also makes them suffer their loss. Although government provides them subsidies on seeds, fertilizers, etc., but microcredit helps them stand back.

### Impacts of Microfinancing in Bihar

1. Bihar was & on top in among states, which is fastest reducing multidimensional poverty. With a population share of 9.06% of the country, in 2019-21, it had 51.76% of people who were multidimensionally poor and about 2,25,11,679 people escaped that multidimensional poverty.
2. There is a fair growth among rural populations of Bihar, who takes in taking institutional loans i.e. from 22.2% in 2012 to 47.4% in 2018. Also, rural people have been avoiding loans from non-institutional sources in the state. It has decreased from 77.8% in 2012 to 51.5% in 2018.
3. Bihar is at the top among North East & North East states and 2nd in the country to have an impressive growth in borrowing portfolios in Microfinance sector which is 37.3% in 2023 from 4% in 2001.
4. Based on the reports by High End High Mark, the overall Microfinance borrowings in Bihar is Rs 48,700 crores which represent 14.5 percent of the overall portfolio of the country as of March 2023.

**Table 4:** List of Microfinance Institutions in Bihar

Sl. No.	Name	Legal Form	Tier
1.	Adi Chandra Shitgagupta Finance Ltd (ACFL)	NBFC-MFI	III
2.	Centre for Development Orientation and Training (CDOT)	Society	III
3.	Centre for Promoting Sustainable Livelihood (CPSC)	Society	III
4.	Man Care International	Society	III
5.	Sahyog Development Services	Sec 8 Com	III
6.	Save Microfinance Pvt. Ltd.	NBFC-MFI	III
7.	SEED Capital Pvt. Ltd.	NBFC	III

*Source:* Directory of MFIs in India, Patna.

### Microfinance in Patna District

Microfinance is reaching the poorest of the state. Borrowings portfolio of microfinance in Bihar is among top 3 in the country.

Patna, being the capital of Bihar, is the fastest growing district of the state. Estimated population of Patna is 78.31 lakh in 2024, with an annual growth rate of 2.73 percent. There is an increase of 34.13 percent from the 2011 census population of 58.38 lakh. Total literacy rate of the district is 70.68 percent. The rural literacy rate is 62.38 percent while urban literacy stands at 80.98 percent. Literacy among rural males is 71.57 percent and among females is 51.04 percent in 2024.

From a population of about 78 lakh, mere 32.23 percent of people are working in Patna district. Among them, male population is 46.66 percent employed whereas female employment rate is only 16.14 percent. In case of rural areas, total of 34.84 percent people work, with 47.19 percent male employees and 20.05 percent female workers. There is a difference. It has been observed that employment rate in rural Patna is higher than that of its urban areas. In urban areas, only 29.53 percent of people are engaged in jobs where 46.09 percent males and only 10.87 percent females are working.

This slight rise in the rural working population, even females, can be attributed to the presence of microfinance in these rural areas. MF institutions are primarily focusing on those areas where they fill the gap between privileged and poor. Their main targets are women, weak, and marginalized people from society who could become self-independent financially and live a life of dignity and self-respect.

### Conclusion

This study has tried to understand and analyze the poverty in the country and Bihar, with a little focus on Patna district. It can be concluded that introduction of Microfinance in Indian economy has proved to be a boon for the marginalized populations. By providing them with micro credit options in different models, microfinance institutions have encouraged and helped the poor and weak to create

jobs for themselves, become self-reliant, and live life with better standards. On observing the data provided by government agencies, it was found that women are very interested and hard-working in rural areas, as different reports show their active participation in Self Help Groups in Patna and other parts of Bihar.

However, there are obstacles in the growth of microfinance in Bihar which are dealt by banks, government, and microfinance institutions with their joint work.

However, this research paper has many limitations due to time constraints, lack of data availability of data by MFIs, and government for Patna district. Therefore, further studies are needed on this topic, with a quantitative analysis to make the study more reliable.

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