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Micro finance is the key to poverty Eradication. A study of Bihar

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Abstract

This study analyses the role of microfinance in the state of Bihar, particularly in the context of poverty alleviation. Microfinance facilitates access to financial services—such as small loans, savings, insurance, etc.—for poor and marginalized sections of society. The study found that, through Self-Help Groups (SHGs) and Microfinance Institutions, there has been an improvement in the income, employment, and financial inclusion of rural households. The findings of the study indicate that microfinance promotes women's empowerment, entrepreneurial development, and social participation. However, challenges such as pressure regarding loan repayment, limited skills, and a lack of market access also persist. Therefore, it is essential to implement microfinance initiatives with effective policy support.

Keywords- Microfinance, Poverty Alleviation, SHG, Financial Inclusion, Women's Empowerment, Bihar

1. Introduction

Poverty alleviation in India has long been a developmental challenge, particularly in states characterized by large rural populations and limited access to economic resources. Bihar, often counted among the country's relatively underdeveloped states, serves as a prime example of this issue. Here, a vast number of people depend on agriculture and the unorganized sector—spheres where income is inherently uncertain and limited. Under such circumstances, the lack of access to financial services—known as 'financial exclusion'—serves to further entrench poverty. It is within this context that microfinance is viewed as an effective instrument for poverty alleviation. The fundamental objective of microfinance is to extend financial services to those segments of society that remain excluded from the traditional banking system. These

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services encompass microcredit (small loans), savings facilities, insurance, and other financial products designed to assist impoverished families in achieving self-reliance. In India, the expansion of microfinance has been driven primarily through the Self-Help Group (SHG) model, a framework actively promoted by NABARD. Under the SHG-Bank Linkage Programme, impoverished women are organized into groups to facilitate their access to savings and credit facilities. This model not only fosters financial inclusion but also serves as a powerful vehicle for social empowerment.

In Bihar, the 'Jeevika' program—operated under the Deendayal Antyodaya Yojana—National Rural Livelihoods Mission (DAY-NRLM)—has played a pivotal role in the proliferation of microfinance. Through this initiative, hundreds of thousands of women have joined Self-Help Groups and are actively participating in economic activities. This engagement has not only led to an increase in their income but has also enabled them to assume more active roles in both social and familial decision-making processes. A crucial aspect of microfinance is its ability to liberate impoverished families from their dependence on moneylenders. Traditionally, people in rural areas would borrow from informal sources at exorbitant interest rates, thereby becoming trapped in a vicious cycle of debt. Microfinance institutions endeavour to mitigate this problem by providing loans at significantly lower interest rates.

Furthermore, microfinance also fosters entrepreneurship. Through small loans, individuals can establish small businesses, engage in animal husbandry, produce handicrafts, open shops, and undertake similar ventures, thereby expanding their sources of income. This process not only accelerates economic growth but also contributes significantly to job creation. Although microfinance is widely regarded as an effective tool for poverty alleviation, it is nonetheless accompanied by certain limitations and challenges. Frequently, loans are utilized for consumption rather than for productive activities, consequently failing to yield the anticipated economic benefits. Additionally, factors such as the pressure of loan repayment, a lack of financial literacy, and limited access to markets also impinge upon its overall effectiveness. In a state like Bihar—characterized by significant socio-economic disparities—the impact of microfinance is contingent upon specific regional and social factors. Therefore, it is imperative to conduct region-specific studies regarding its impact in order to fully comprehend its actual utility and inherent limitations.

The objective of this study is to analyze the role of microfinance in Bihar, with a particular focus on understanding how it aids in the process of poverty alleviation. This research evaluates the impact of microfinance from economic, social, and gender-based perspectives, while simultaneously highlighting the challenges and opportunities associated with it.

Thus, it can be concluded that microfinance serves not merely as a vehicle for financial inclusion, but also as a pivotal instrument for poverty alleviation, women's empowerment, and rural development. Through its effective implementation, the goals of inclusive and sustainable development can be successfully realized in states such as Bihar.

2. Literature Review

Microfinance is widely accepted as an effective tool for poverty alleviation, and numerous research studies have been conducted on this subject within both global and Indian contexts. The available literature indicates that microfinance influences various dimensions of economic, social, and gender empowerment; however, some divergences of opinion regarding its impact are also observed in the research. In a study conducted on beneficiaries of the Grameen Bank in Bangladesh, Aslam et al. (2020) found that microfinance has brought about positive changes in the lives of poor households. According to them, microcredit has led to increased income, improved consumption levels, and enhanced participation in economic activities. A systematic review conducted by Maïtrot and Niño-Zarazúa (2016) concluded that microfinance has demonstrated a positive impact on poverty, specifically in terms of increased per capita income, asset accumulation, and a reduction in poverty rates. Furthermore, the study found that women tend to derive greater benefits from microfinance. Haggblade et al. (2010), along with other researchers, have argued that microfinance stimulates non-agricultural activities within the rural economy, thereby expanding employment opportunities and diversifying sources of income.

In more recent studies, Kerry (2024) observed that microfinance encourages economic activity within rural communities and contributes to poverty alleviation, although its impact is contingent upon regional and socio-cultural contexts. A systematic literature review (SLR) conducted by Ermawati et al. (2024) categorized the impact of microfinance into five key areas: (i) poverty alleviation, (ii) entrepreneurship development, (iii) women's empowerment, (iv) financial inclusion, and (v) community welfare. The study concluded that while microfinance generally exerts a positive influence in most instances, disparities in its outcomes are also evident. According to a study by Jensen and Naveed (2025), microfinance can be instrumental in reducing income inequality, particularly when implemented within an appropriate policy framework and with institutional support.

Furthermore, a bibliometric study by Ghatode and Nimbarte (2025) found that global research on microfinance is steadily increasing, with its primary focus centered on themes such as poverty alleviation, women's empowerment, and climate adaptation.

However, not all studies unanimously acknowledge the positive impact of microfinance. Some research indicates that the impact of microfinance is limited or mixed. In many instances, loans are utilized for consumption rather than for productive activities, thereby failing to generate long-term economic improvement.

3. Research Gap- The available literature clearly demonstrates that microfinance makes a significant contribution to poverty alleviation; nevertheless, several key research gaps persist: Lack of Region-Specific Studies: Micro-level studies focused on states like Bihar remain limited. Absence of Long-Term Impact Analysis: Most studies focus on short-term effects, while research regarding long-term impacts remains scarce. Analysis of Loan Utilization: It remains unclear what proportion of the loan amount is allocated toward productive activities versus consumption purposes. Limited Study of Social Impacts: Further research is required regarding social changes, such as gender equality

and social capital. Analysis of Negative Impacts: Limited studies are available concerning issues such as over-indebtedness and high interest rates.

4. **Perspective** - The available literature clearly establishes microfinance as a crucial instrument for poverty alleviation; however, it cannot be regarded as a "silver bullet." Its impact is contingent upon local socio-economic conditions, institutional structures, and the capabilities of the beneficiaries. From my perspective, the impact of microfinance holds particular significance in a state like Bihar, given the high prevalence of financial exclusion and the limited access that impoverished sections of society have to formal banking services. Consequently, an in-depth and region-specific analysis of the impact of microfinance in this region is imperative.

Future research should undertake a more comprehensive analysis by integrating both quantitative and qualitative methodologies. Furthermore, special attention should also be directed toward the role of microfinance in the contexts of digital financial inclusion, women's entrepreneurship, and sustainable livelihoods. Therefore, this study will endeavour to bridge these research gaps and present a comprehensive assessment of the actual role of microfinance in the context of Bihar.

5. Results and Analysis

This study analyses the role of microfinance based on primary data collected from 120 Self-Help Group (SHG) members in the rural areas of Bihar. Specifically, the impact of activities conducted under the Deendayal Antyodaya Yojana–National Rural Livelihoods Mission was assessed. The results indicate that microfinance has brought about significant changes at the economic, social, and gender levels.

Table 1: Changes in Income and Financial Inclusion

Index	Before the Program (%)	After the Program (%)
Bank Account Availability	30%	86%
Regular Savers	25%	80%
Monthly Income Less Than ₹5,000	68%	36%
Monthly Income More Than ₹10,000	8%	24%

Source: Primary Field Survey, Rural Bihar (2025–26)

(i) Analysis of Financial Inclusion and Income

Table 1 clearly indicates that microfinance has significantly enhanced financial inclusion. Prior to the program, only 30% of the beneficiaries held a bank account; this figure subsequently

rose to 86%. Similarly, the percentage of members engaging in regular savings increased from 25% to 80%, signalling financial discipline and stability. A notable improvement has also been observed in income levels. The proportion of households with an income of less than ₹5,000 declined from 68% to 36%, while the growth in the income bracket exceeding ₹10,000 (from 8% to 24%) demonstrates that microfinance has fostered new income-generating opportunities.

Table 2: Employment and Social Empowerment

Index	First (%)	after (%)
Self-employment/Small Business	18%	55%
Women's Participation in Decision-making	28%	72%
Dependence on Moneylenders	65%	23%
Participation in Group Activities	32%	85%

Source: Primary Field Survey, Rural Bihar (2025–26)

(ii) Analysis of Employment and Social Impact

Table 2 clearly indicates that microfinance has expanded opportunities for self-employment. The proportion of individuals engaged in small-scale businesses has risen from 18% to 55%, demonstrating that, through small loans, people are increasingly gravitating towards entrepreneurship. In the context of women's empowerment, women's participation in household decision-making has increased from 28% to 72%. This constitutes a significant indicator of social change. Furthermore, the decline in reliance on moneylenders (from 65% to 23%) suggests that access to the formal financial system has improved.

(iii) Overall Impact

The study also revealed that approximately 62% of beneficiaries have developed additional sources of income through microfinance—such as animal husbandry, operating small shops, tailoring work, etc. This has enhanced their economic stability and contributed to a reduction in poverty levels.

(iv) Concluding Remarks

The statistics demonstrate that microfinance serves as an effective instrument for poverty alleviation in Bihar. It not only fosters income growth and financial inclusion but also strengthens social empowerment and women's participation. However, to further enhance its effectiveness, it is essential to place special emphasis on skill development, market linkages, and financial literacy.

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