

## Role of Microfinance in the Sustainable Rural Development of Patna

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### Abstract

Gandhiji once said, "India lives in villages and the growth of the nation cannot be achieved without the development of villages". Development is the sustained improvement in basic welfare, especially for the people who are impoverished and suffering from poverty, illiteracy, and bad health. Sustainable development is the primary goal for which a nation, state, and Organization is working on a grassroots level. Microfinance came as a great paradigm for the rural development of India. By offering loans to individuals without any collateral security, at reduced interest rates microfinance serves a major impact on rural areas via the economic and social inclusion of the disadvantaged poor of society especially women. The need for microfinance arises because of the main hurdle of society which is poverty. Microfinance in this scenario became a great source of finance for the poor to raise their income. This research paper attempts to analyse microfinance's involvement in Patna's rural sustainability. Some of the important government initiatives towards the development of rural areas of Patna including Bihar are also examined. Also, the major roles performed by SHG-Bank Linkage Programme (SBLP), NABARD, and other officials are also analysed. The data are collected using secondary source which includes books, magazines, annual reports, records, websites, published articles, and currently available literature. In this study, it is analysed that the Bihar region is getting benefited from the scope of various initiatives and programmes under government schemes and policies. Hence, it is crucial to understand how these programmes and schemes will impact every rural region of Patna. The finding of this study points out that despite its strong potential and impressive achievement, the microfinance sector is still facing accessibility challenges in the rural areas of Patna.

**Keywords-** Microfinance, Sustainable Rural Development, Poverty, Illiteracy, SBLP, NABARD.

## Introduction

The rural parts of India are home to the poor. Sustainable rural development is designed to assist an improvement in the economic, social, political, and environmental conditions that affect the quality of life of humans. Access to microfinance contributes to the sustained rural, social, and economic development of the nation. Microfinance is a development concept that provides loans to the poor who lack conventional financial services. As a sustainable development tool, it may help those who are economically disadvantaged to get financial support. Microfinance helps get people out of poverty by giving them jobs, allowing them to start their own businesses, making agriculture more productive, giving women more power, promoting gender equality, reducing rural migration, improving health and education, promoting green business, and getting farmers to use modern technology or inputs. As a result, microfinance institutions place an emphasis on fostering long-term, environmentally responsible rural development that benefits current and future generations without compromising the country's limited natural resources.

## Literature review

Globalization's many features made sustainable growth and development important. It can help many impoverished but also enhance inequality by favouring the affluent (**Dollar, 2001**).

There has been a rise in family income due to the adoption of microfinance practices. An increase in income, health, and education are all possible for many individuals. Microfinance would help individuals take advantage of opportunities while mitigating risks (**Monique, 2003**).

Cooperation with the governmental sector, philanthropists, and microfinance institutions may enhance socially and economically disadvantaged areas (**Chandra, 2008**).

**According to McKean, e (1995)**, Institutional Financial Sufficiency is a reflection of an MFO's capacity to function at a level of profitability that supports the sustained delivery of services with little or no dependency on donor inputs.

**Mellor (1966) and Timmer (1988)** analyse the rural-to-urban sector's migration and MFIs' involvement in rural development.

## Objectives

1. To know about microfinance's concept.
2. To investigate microfinance's role in Patna's sustainable rural development.
3. To identify the contribution of the government to the rural development of Patna.

## Methodology

This research uses secondary data that includes books, magazines, journals, annual reports, websites, etc.

### Concept of microfinance

Microfinance provides financial assistance for people with low incomes and cooperative financing firms, such as entrepreneurs and consumers, who lack accessibility to banks and related services. It includes loans, savings, insurance, money transfers, and training and counseling (non-financial services). Microfinance is a key credit provider. It has greatly reduced poverty over the previous few decades. Microfinance has increased income and quality of life for microfinance recipients.

### Objectives of microfinance

The followings are the basic objectives of microfinance:

1. To provide formal institutions with a cost-effective way to reach the underprivileged.
2. To concentrate on rural and urban impoverished people, especially women.
3. To successfully pursue microeconomic growth goals.
4. To promote household resource access and control and women's financial independence.
5. To pilot test alternative microcredit distribution mechanisms to commercial banks.
6. To investigate and encourage microfinance contribution to MFIs.

### Models of microfinance delivery in India

Microfinance developments in India have been encouraged by official formal credit institutions' inability to serve the rural poor. Microfinance provides the poor and underprivileged access to credit and banking services. The government and Reserve Bank of India have nationalised banks, regulated priority sector lending, and provided concessional borrowing rates for the poor. It was noticed that impoverished people's credit requirements needed more direct attention from officials. In the early 1990s SHG bank linkage programme (SBLP) was introduced to meet this need. In India Presently, there are the followings channels for microfinance:

#### a) SHG-Bank Linkage Model

NABARD launched this bank-led microfinance channel in 1992. SHGs are small groups of 10–20 poor rural or urban individuals who are likely similar in features that promote savings

and use these funds for loans. The organisation elects its own leaders democratically. SHGs are important since their members share a community or society and an economic aim. All members' economic well-being is their SHG goal. In this system, informal SHGs' credit is linked to formal financial institutions. In Indian microfinance, the SHG-Bank linkage model is the largest model with almost 20 million consumers. SHGs' financial requirements are met by regional rural banks (RRB), cooperative banks, commercial banks, co-operative credit, etc. This model gives group members the flexibility to save and borrow according to their needs.

#### **b) Microfinance Institutions Model**

In general, the term "microfinance institutions" refers to those financial institutions that are focused on assisting primarily impoverished households and small businesses in obtaining access to financial services (IMF Working Paper, 2002). MFIs have also become popular in India in the current scenario. The SHG-BLM is Indian, but the MFI model is worldwide. MFIs borrow large sums from apex financial institutions, donors, and banks to lend to individuals or groups like SHGs under this approach. India's MFI model has several legal and institutional aspects. In India, microfinance institutions (MFIs) consist of trusts incorporated under the Indian Trust Act, 1882; societies incorporated under the Societies Registration Act, 1860; the Public Trust Act, 1920; cooperatives incorporated under the Mutually Aided Co-operative Societies Acts of the States; and non-banking financial companies (NBFCs) incorporated under Section 25 of the Companies Act, 1956 or with the Reserve Bank. Also, the registered entities make these MFIs nationwide.

#### **c) Bank Partnership Model**

In this system, the borrower is the client, the bank acts as the lender, and the MFI acts as an agent to monitor, supervise, and recover credit for the bank. This model uses microfinance organisations as bank agents. Microfinance institutions solely care about loan issuance and repayment. In this arrangement, MFI keeps borrower loans for a while and securitizes them to get more cash.

#### **d) Grameen Bank Model**

Grameen Bank is a successful microfinance's initiative. Grameen Bank's village-based microfinance strategy was started in 1970s in Bangladesh. This concept organises microfinance participants into five-member's groups. Group savings and insurance fund contributions are obligatory. After saving for a while, group members get bank loans.

Borrowers exclusively responsible for repayment, and group members are not liable for a defaulting member.

#### **e) Joint Liability Group Model**

This concept organizes 4–10 people into Joint Liability Groups (JLGs). Mutual guarantee allows group members to get bank loans without a savings fund. A jointly liable contract makes all group members responsible for group debts. Hence, lending institutions obtain only social collateral. JLGs act mostly as credit groups, therefore members lack the ability to save. Legal obligations bind the group's members. Most MFIS in India forms these groups since they are simple to form and have few lending limitations. NABARD uses this technique to lend to tenant farmers, oral lessees, sharecroppers, and small farmers without land titles. Because, sharecroppers, oral lessees, and tenant farmers had higher borrowing needs but no collateral for the banking system's usual lending procedures. SHGs might be updated to better serve Joint Liability Groups (JLGs). This concept is used in many other nations as well.

#### **f) Individual Lending Model**

This approach permits users to borrow without group membership. Microloans are directly offered to borrowers under this model. To supply financing solutions customised to individual requirements, financial institutions have to frequently and closely interacted with customers under this system. Urban production-oriented enterprises benefit from it. This approach is used by several financial organisations, including the Dominican Republic's Association for the Development of Micro Enterprises (ADEMI), Indonesia's Bank Rakyat, Egypt's Senegal, India's Self-Employed Women's Association, and others.

### **Microfinance's Role in sustainable rural development of Patna**

Some of the essential microfinance models which are actively participated in the sustainable rural development of Patna are:

#### **1. NABARD's SHG-Bank Linkage Programme**

The world's biggest microfinance programme is SHG–Bank Linkage, which began as a pilot program in 1992 under NABARD regulations. It empowers people at the bottom of the hierarchy economically and financially. An effective structure regarding expanding financial service facility for disadvantaged put together into sustainable livelihoods and poverty reduction initiatives under this programme.

Rural India's National Rural Livelihoods Mission (NRLM) is now leading charge in SHG establishment and capacity building. The MoRD of India launched the National Rural Livelihoods Mission (NRLM) in June 2011. This mission used World Bank financing to create efficient and effective institutional platforms for rural poor families to raise family income via sustainable livelihood improvements and financial services. In year 2019-2020, NRLM was responsible for 57.89 lakh SHGs, which represents a rise of 3.75% over the previous year. Furthermore, the organisation had a net addition of 2.09 lakh SHGs.

**Table 1.1 Performance of SHGs under NRLM as on 31.03.2021**

Schemes	Target	Saving Bank Linkage No.	Credit linkage sanctioned		% Achievement (No.)
	No.		No.	Amt (in crores)	
SHGs	2,50,000	98,039	1,76,625	3507	70.65

Source-Proceeding from 76<sup>th</sup> meeting SLBC (BIHAR).

**Table 1.1**, analyse the performance of SHGs under NRLM as on 31.03.2021 in Bihar. It states the SHG's scheme's position under NRLM in Bihar state. Under this, the target number of SHGs is 2.5 lakh in which the total number of saving bank linkage is 98,039 which is 39.21% of target SHG's numbers and credit linkage sanctioned is 1.76 lakh which is 70.65% of target SHG's numbers. The achievement rate is 70.65% which is a good indicator of SHGs performance in Bihar.

## 2. Bihar Rural Livelihoods Promotion Society (JEEViKA)

JEEViKA is Bihar's poverty alleviation programme. In 1860, the Bihar Rural Livelihoods Promotion Society was created by the state government, making it a legal entity subject to the provisions of the Societies Registration Act. The group's mission is to help economically and socially disadvantaged women in rural areas in becoming more self-reliant by strengthening their local networks so they may more easily get access to government services and financial aid.

Since the COVID-19 outbreak and state-wide lockdown, JEEViKA has been important in limiting the virus and reaching rural homes with life-saving sanitation supplies, including masks and sanitizer. The initiative gave rural ultra-poor essentials and a safety net. JEEViKA has targeted rural families in response to COVID-19. Other JEEViKA Covid-19 initiatives include: a) Awareness and Preparedness: JEEViKA authorities and frontline workers reached out to a large community using audio, messaging, pamphlets, theme songs, and video. b) Mask Production and Supply: The sudden epidemic caused a scarcity of masks and sanitizers,

but JEEViKA helped Bihar in becoming self-sufficient in mask production. By April 2020, 2367 families in 38 districts had produced 18.75 lakh masks.c) Safety Net for Ultra-Poor: Poor families suffered the most during the COVID-19 shutdown. SJY families received an amount of Rs. 2000 cash award from VOS under SatatJeevikoparjan Yojana (SJY).

**Table 1.2 The number of households in some important districts engaged in Mask Production and Payment Received during Covid-19 Pandemic during the year 2020-2021**

District	Total households Involved in Mask Production	Mask Production	Payment Received (Rs)
Patna	118	139944	644585
Nalanda	56	71925	126640
Bhojpur	104	46115	428022
Buxar	43	50038	659339
Rohtas	12	21382	199230
Total	333	3,29,404	20,57,816

Source-JEEViKA, Government of Bihar

Table 1.2, shows the number of households in some important districts engaged in Mask Production and Payment Received during Covid-19 Pandemic during the year 2020-2021 under JEEViKA Programme. In Patna, the highest mask production was done during Covid-19 which was 1,39,944 followed by Nalanda with 71925 number of mask production and payment received amount stood at Rs 6,44,585.

**Table 1.3 Some important District's Distribution of Sanitation Kit at Rural Households during Covid-19 Pandemic in Bihar during the year 2020-2021**

District	Number of Gram panchayats	Number of families who has received soap (000')	Number of families who has received mask (000')
Patna	256	763.9	764.4
Nalanda	249	584.8	587.6
Bhojpur	228	568.4	520.8
Buxar	140	332.7	329.5
Rohtas	245	548.6	548.6
<b>Total</b>	1118	2798.4	2750.9

Source- Department of Panchayati Raj, GoB

Table 1.3, examines Some important District's Distribution of Sanitation Kit at Rural Households during Covid-19 Pandemic in Bihar during the year 2020-2021. Patna has the highest number of Gram panchayat with 256 in number. Number of Families who received

masks was almost 7.64 thousand, about 30.15% more growth than Nalanda district. Families who received soap were 7.63 thousand, about 30.65% high growth rate than Nalanda district.

### The government's contribution to the rural development of Patna

Bihar's government has implemented various schemes and initiatives that have a great influence on the rural sectors of Patna and Bihar. Some of them can be understood below:

#### 1. Rurban Mission

Most Indians live in villages, which are commonly clustered. Due to their big population, many villages have growth potential. The Central Government started Shyama Prasad Mukherji Rurban Mission (SPMRM) to give some clusters of villages with urban economic, social, and physical facilities, creating Rurban Villages. This objective aims to boost local economic activity, create basic services, and develop Rurban clusters. The state chose Rurban cluster based on growth potential and local resources. Rurban mission has 21 desirable elements- (i) 24/7 piped water supply. (ii) Inter village road connectivity, (iii) Environment, (iv) Tourism promotion. (v) Village street light, (vi) Public transport, (vii) Health, (viii) Employment & SHG formation, (ix) LPG connection, (x) Sanitation. (xi) Rural housing, (xii) Solid & liquid waste management, (xiii) Skill development training. (xiv) Social infrastructure. (xv) Drain Facility. (xvi) Agri services & processing. (xvii) Sports infrastructure. (xviii) Digital literacy, (xix) Education. (xx) Social welfare, (xxi) Citizen service center.

**Table 1.4 Rurban Mission in Bihar**

Districts	Cluster (Phase)
Patna	Bairiya (Phase-1), Saksohra (Phase-3)
Gaya	Nauranga (Phase-1), Tankuppa (Phase-3)
Saharsa	Sonbrasa (Phase-1)
Rohtas	Kuchilla (Phase-1)
Samastipur	Kariyan (Phase-2)
Purnea	Khokha (Phase-2)
West Champaran	Barbat Pasrain (Phase-2)
Kaimur	Tori (Phase-3)
Lakhisarai	Pipariya (Phase-1)

Source- Department of Rural Development, GoB

Table 1.4, shows that 11 clusters across nine districts and three program phases have been certified in the state of Bihar. In Patna, there are two districts in which Rurban Mission is active with phase 1 and phase 2 with cluster-based desirable socio-economic elements.

## 2. Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)

In this scheme, every rural family that is ready to engage in unskilled or manual labour was promised 100 days of paid labour under the 2005 Mahatma Gandhi National Rural Employment Guarantee Act to improve their living standard. Bihar's massive number of jobless is employed through the MGNREG Scheme. Since its start, the state has executed this plan effectively.

**Table 1.5 Some important District's Progress under MGNREGS (2017-18 to 2019-20)**

District	Household's numbers issued job cards (in lakh)			Share of Percentage of SC households among households with jobs card			Household's Percentage with jobs card demanding employment		
	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20
Patna	5.7	5.9	6.4	25.4	25.1	23.8	12.0	13.1	15.3
Nalanda	4.4	4.5	4.7	36.7	36.2	35.3	15.1	16.3	16.8
Bhojpur	3.6	3.8	4.1	32.5	31.5	29.2	16.6	16.2	17.6
Buxar	2.8	2.8	2.9	29.4	28.9	28.2	24.9	22.6	18.4
Rohtas	3.7	3.8	4.1	30.9	30.1	29.5	17.4	19.7	17.9
Kaimur	2.3	2.4	2.5	36.6	35.2	34.0	18.8	24.3	23.3
Total	22.5	23.2	24.7	191.5	187	180	104.8	112.2	109.3

Source- Department of Rural Development, GoB

**Table 1.5** Some important District's Progress under MGNREGS (2017-18 to 2019-20). In 2019-20 Patna issued 6.4 lakh job cards, followed by Nalanda and Bhojpur. The percentage of job cards issued to SC households has slightly declined as it is 23.8 % of total households with job cards during the year 2019-20 whereas it was 25.4% during the year 2017-18 in Patna. The share of households demanding employment with job cards was low in Patna with 15.3% during the year 2019-20.

**Table 1.6 Some important District's Progress under MGNREGS (2017-18 to 2019-20)**

District	Households with 100 days employed as a percentage of those who obtained employment			Person-Days of Employment generated (In lakhs)			Women's Percentage share in total employment generated		
	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20
Patna	0.1	1.1	0.6	17.4	28.2	33.5	47.6	52.0	55.2
Nalanda	0.6	1.2	1.3	19.6	28.2	34.4	51.6	58.7	59.1
Bhojpur	0.2	0.4	0.3	13.1	17.9	19.8	39.4	43.6	46.2
Buxar	0.6	0.6	0.5	19.4	20.4	17.0	35.6	39.4	40.1
Rohtas	0.2	0.5	0.2	14.0	23.6	23.0	34.3	40.2	45.0
Kaimur	1.3	1.3	0.6	12.5	21.5	21.3	37.4	42.4	48.0
Total	3	5.1	3.5	96	139.8	149	245.9	276.3	293.6

Source- GoB's Department of Rural Development

**Table 1.6** shows the progress of the MGNREGS in some important District of Bihar (2017-18 to 2019-20). The percentage of households completing hundred days of employment in Patna was 0.6 percent in 2019-20 whereas this percentage is high in Nalanda with 1.3 percent. Person days of employment generated in Patna in 2019-20 were 33.5 lakh and Patna's total women employment generated share in 2019-20 was 55.2 percent.

### 3. Public Distribution System (PDS)

India's Public Distribution System (PDS) is one of the greatest welfare programmes that fights poverty and hunger. It feeds the needy. Under the Essential Commodities Act 1955, PDS supplies food grains at subsidised rates. PDS goods include rice, wheat, sugar, and kerosene oil. According to Social Economic and Caste Census (SECC, 2011), Food grain is supplied to eligible families by the PDS. Bihar's rural PDS coverage is 85.1 percent and urban coverage is 74.5 percent.

**Table 1.7 Some Important District's Distribution of PDS Dealers by Social Background in Bihar (2019-20)**

District	Number of Dealers	SC/ST %	BC/EBC %	Minority %	Women %	Other SHG %	PACS/Helper Samiti/Ex-Army's Personnel's Samiti /Divyang %	General %	Total
Patna	2498	17.4	42.9	2.6	16.3	0.4	6.1	14.3	100
Nalanda	1196	14.9	41.9	4.0	9.7	1.9	15.2	12.4	100
Bhojpur	1273	14.5	35.5	4.1	13.3	0.0	9.3	23.3	100
Buxar	805	20.0	33.8	2.9	11.9	1.5	7.7	22.2	100
Rohtas	1227	20.1	35.9	3.4	16.3	0.0	8.1	16.1	100
Kaimur	803	21.0	37.2	4.7	20.4	0.2	2.7	13.6	100
Total	7802	107.9	227.2	21.7	87.9	4	49.1	101.9	100

Source- Department of Food and Consumer Protection, GoB

**Table 1.7**, Some important District's Distribution of PDS Dealers by Social Background in Bihar (2019-20). During 2019-20, there were 2498 dealers in Patna. The backward and extremely backward castes have the maximum shares among all social categories in PDS dealership with 42.9 percent, followed by SC/ST with 17.4 percent and women with 16.3 percent in the year 2019-20 in Patna.

### Findings

The finding of the study is the lack of access to financial resources faced by rural people. It is still difficult to get access to microfinance in rural Bihar, including the rural region of Patna, due to infrastructure hurdles and a lack of prospective knowledge. Also, Agricultural and other sector productivity is falling as a result of diminishing land holdings, environmental deterioration due to pollution, and poor water quality which leads to lower profitability and an unfavourable commercial sector in rural regions. Because of this, rural Bihar is struggling to achieve sustained economic growth.

### Conclusion

Microfinance, which originated in Bangladesh, helps rural people financially and socially. Poor individuals in rural regions may overcome their financial hardships and little resources with the help of microfinance services. Microfinance helps the underprivileged combat hunger and poverty and enhance their quality of life. In rural areas of Bihar, there are many schemes and programmes that are very active. For sustained rural development, the

governments of India and Bihar have implemented the above schemes, such as Rurban Mission, MGNREGS, and PDS. These programmes provide Bihar's rural population with satisfactory benefits. JEEViKA and SBLP both play an admirable role in achieving sustainable development objectives. Therefore, microfinance plays an important part in the development process of rural India.

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