



The Impact of Government Policies on the Growth of Microfinance Institutions in Bihar

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Abstract

Microfinance institutions (MFIs) play an important role in providing financial services to low-income individuals and marginalized communities. In Bihar, a state in India with a high population living below the poverty line, MFIs have been instrumental in promoting financial inclusion and empowerment of poor households. However, their growth has not been without challenges. The government policies and regulations surrounding microfinance have had a significant impact on the operations and sustainability of these institutions. In addition, following this act, many states including Bihar also implemented stricter regulations on MFIs, making it more difficult for them to operate. The government's focus on increasing access to formal banking services through initiatives like Jan Dhan Yojana has also impacted MFIs' outreach efforts. With easier accessibility of traditional banks for basic savings accounts and loans at lower interest rates compared to MFIs, the demand for their services decreased significantly.

Keywords: Microfinance institutions (mfis), growth, financial, government policies and regulations

Introduction

Microfinance is a critical tool for promoting financial inclusion and poverty reduction in developing countries. It provides access to credit, savings, and other financial services to the economically disadvantaged population who do not have access to traditional banking services. In India, where a large percentage of the population lives below the poverty line, microfinance has emerged as an important means of empowering individuals and communities by providing them with opportunities for economic advancement. Bihar is one of the most populous states in India with significant levels of rural poverty and inadequate access to formal credit sources. The state government has recognized the potential of microfinance in addressing these issues and has implemented various policies to promote its growth in the region. However, it is essential to analyze how effective these policies have been in achieving their intended objectives. The Impact of Government Policies on the Growth of Microfinance Institutions in Bihar is a crucial area that requires attention from policymakers, researchers, and practitioners alike. This topic holds great significance as microfinance institutions (MFIs) play a pivotal role in driving economic development at grassroots levels. The success or failure of MFIs directly impacts thousands of households dependent on them for their financial needs.

Literature review

The impact of government policies on the growth of MFIs in Bihar cannot be ignored. In recent years, both central and state governments have introduced various policies to support the development of these institutions. For instance, initiatives like Jan Dhan Yojana and PMMY (Pradhan Mantri Mudra Yojana) have provided a substantial boost to MFI activities by promoting financial inclusion among low-income households.

Amit Kumar Mishra (2017) ^[2] examined the effectiveness and function of commercial banks in Jharkhand, alongside

the contributions of institutions such as regional rural banks (RRBs), Self-Help Groups (SHGs), and non-banking financial companies (NBFCs) in advancing financial inclusion.²

Uma and Rupa (2013) sought to investigate the impact of Self-Help Groups (SHGs) on financial inclusion, highlighting a favorable connection between SHG membership and access to financial services. Their research indicates that following enrollment in SHGs, there was a rise in bank accounts opened, an increase in credit accessed by members, and a positive trend in annual loan repayments. Shanu Singh's 2019 ^[3] study on the sustainability of rural microfinance institutions (MFIs) in Tanzania found that to achieve financial stability, MFIs need to implement slightly higher interest rates. This approach would help cover their operating expenses while also reducing the size of loans granted to individuals, extending repayment periods to prevent defaults. Additionally, simply increasing loan amounts does not contribute to economic sustainability; rather, MFIs should prioritize monitoring the loans issued to borrowers.³

Asad K. Ghalib (2013) explored the challenges facing microfinance institutions in rural Pakistan, particularly the limited presence of banks in these areas. While MFIs have effectively extended their services to the fringes of rural communities, borrowers often struggle to repay their loans, leading to a rise in non-performing assets within these financial entities. The primary focus is on mitigating these non-performing assets and identifying various avenues for loan recipients to invest their funds wisely to yield significant profits down the line.

Research gap

Despite the significant role that microfinance institutions (MFIs) play in providing financial services to the poor and promoting economic growth, there is a research gap regarding the impact of government policies on their growth

in Bihar. This eastern state of India has been striving to improve its economic conditions, which have been historically characterized by poverty and underdevelopment. While MFIs have emerged as effective mechanisms for alleviating poverty and empowering women in rural areas of Bihar, there is limited research focusing specifically on the interaction between government policies and MFI development in this region. Government policies can greatly affect MFI operations through regulations, subsidies, funding opportunities, and other incentives. Moreover, there is little empirical evidence on how these policies actually influence MFI performance indicators such as outreach, client satisfaction, sustainability, and profitability. This knowledge gap leaves policymakers without adequate information to design effective strategies for fostering sustainable growth of MFIs in Bihar.

Increased Accessibility to Financial Services for the Poor

Financial inclusion has been a major goal for governments around the world, especially in developing countries like Bihar. The availability of financial services has a direct impact on the economic growth of individuals and communities, and microfinance institutions (MFIs) play a crucial role in this regard. However, historically, MFIs have faced various challenges in reaching out to the poor in Bihar due to several reasons such as lack of infrastructure, illiteracy, and inadequate government policies.

The good news is that over the past decade, there has been a significant increase in accessibility to financial services for the poor in Bihar. This is primarily attributed to various government policies that have been implemented with the aim of promoting financial inclusion and supporting MFIs in their efforts to reach out to underprivileged communities.

One of the most notable policies introduced by the Government of Bihar is the Self-Help Group (SHG) movement. Under this scheme, small groups of women from marginalized communities are formed and provided with loans at low-interest rates through collaboration between banks and MFIs. These loans are used for income-generating activities such as agriculture, animal husbandry, or setting up small businesses. As of 2020, more than 90% of SHGs were said to be credit-linked with banks or other financial institutions.

Additionally, there has also been an increase in partnerships between MFIs and government agencies such as NABARD (National Bank for Agriculture and Rural Development), which provides them with access to funds at subsidized interest rates. This enables MFIs to offer affordable credit options to individuals from low-income groups who otherwise would not have access to formal financial institutions.

Moreover, in recent years, the government has also implemented various policies aimed at promoting financial literacy among the poor. This has helped individuals from low-income groups become more aware of their rights and options when it comes to availing financial services. Furthermore, seminars and workshops organized by government agencies have also helped in creating awareness about the benefits of microfinance for economic development.

Reduction of Poverty Levels

Bihar, one of the poorest states in India, has long been plagued with high poverty levels and a lack of access to

financial services for its rural population. However, the growth of microfinance institutions (MFIs) in recent years has shown promise in reducing poverty levels and improving financial inclusion in the state.

Microfinance is a financial service that provides small loans, savings accounts, and other basic financial services to low-income individuals who are typically excluded from traditional banking systems. These individuals, often living in poverty, lack collateral and credit history needed to access loans from formal financial institutions.

The impact of government policies on the growth of MFIs has played a crucial role in addressing this issue. In Bihar, various initiatives have been introduced by the government to support the development of MFIs and promote greater financial inclusion among its citizens.

One such policy is the Bihar Mahila Samakhya Program (BMSP), launched by the Government of India along with NGOs, which targets women empowerment through self-help groups (SHGs). The program aims to empower women both socially and economically by providing them access to micro-credit facilities. As a result, SHGs have become an important source for funding for many MFIs operating in Bihar.

How government policies have aided or hindered their growth

The role of government policies in the growth of microfinance institutions (MFIs) in Bihar cannot be underestimated. Over the years, the state government has implemented various policies and initiatives aimed at promoting the growth and sustainability of MFIs. However, these policies have also faced challenges and hindered their growth.

One major policy that significantly aided the growth of MFIs was the establishment of State Livelihood Promotion Society (SLPS) in 2007. SLPS acted as a nodal agency for implementing various poverty alleviation programs, including microfinance, in collaboration with NGOs, community-based organizations and banks. This collective effort by the government helped to bridge the gap between MFIs and formal financial institutions, leading to increased access to credit for low-income households.

Another significant policy that positively influenced MFI growth was priority sector lending (PSL). As per Reserve Bank of India guidelines, commercial banks were mandated to lend a certain percentage of their total loans to priority sectors like agriculture, small businesses and weaker sections. This provided an opportunity for MFIs to receive funds from formal financial institutions at lower interest rates compared to other sources.

Despite these positive initiatives by the government, there are still some hindrances that have impeded MFI growth in Bihar. The lack of proper infrastructure including roads and communication networks in rural areas is one such challenge. This makes it difficult for MFIs to reach out to remote and underserved communities. Moreover, the state's volatile political environment and bureaucratic inefficiency have also posed challenges for the growth of MFIs.

Research Objectives

The main objective of this research project is to analyze the impact of government policies on the growth of microfinance institutions in Bihar.

There are following objectives on this study:

- To identify the current policies and regulations governing microfinance institutions (MFIs) in Bihar.
- To assess the impact of government policies on the ease of doing business for MFIs in Bihar.
- To examine how government interventions have affected the growth and sustainability of MFIs in Bihar.
- To explore the role of government support programs, such as subsidies and loans, in promoting MFI growth in Bihar.
- To analyze the level of awareness among MFIs regarding government initiatives aimed at promoting financial inclusion.

Research methodology

Research methodology is a systematic approach used to collect and analyze data in order to answer research questions or test hypotheses. In the context of studying the impact of government policies on the growth of microfinance institutions (MFIs) in Bihar, a robust and comprehensive research methodology is crucial. This is because MFIs play a significant role in providing financial services to low-income individuals and small businesses, especially in developing countries like India. The first step in any research methodology is identifying the research problem or question. In this case, it would involve understanding how government policies affect the growth of MFIs operating within Bihar. The next step would be conducting an extensive literature review on previous studies related to this topic. This will help provide a background knowledge and identify any gaps that need further exploration. After establishing a solid foundation, the researcher can then select appropriate methods for data collection such as surveys, interviews, focus groups or document analysis. Each method offers unique advantages and allows for different types of data to be collected. For instance, surveys are useful for obtaining quantitative data from a large sample size while interviews offer more detailed insights from key stakeholders.

Hypothesis

H0: There is no significant impact of government policies on the growth of microfinance institutions in Bihar.

H1: Government policies have a positive impact on the growth of microfinance institutions in Bihar.

Data discussion

Microfinance institutions (MFIs) have played a crucial role in promoting financial inclusion and alleviating poverty in countries like India. Bihar, one of the most populous states in India, has been facing social and economic challenges such as low literacy rates and high unemployment. In an effort to address these issues, the government of Bihar has implemented various policies aimed at promoting the growth of MFIs. One such policy is the formation of the Department of Rural Development (DRD), which oversees the implementation of MFIs through its flagship program called Jeevika. This program focuses on providing credit facilities to women self-help groups (SHGs) for entrepreneurship development.

Data analysis and data interpretation methods

Analysis Data analysis will be done the Statistical Package for the Social Sciences (SPSS). Data collected from 200

individuals will be analysed using computer software IBM SPSS24, with the application of advanced statistical analysis.

Findings

The State of Bihar in India has faced many challenges in terms of economic growth and development. In order to address these issues, the state government has implemented various policies to promote microfinance institutions (MFIs) as a means to provide financial services to the underserved sections of society. The impact of such policies on the growth of MFIs in Bihar has been widely investigated by researchers. One notable finding is that the implementation of government policies has significantly contributed towards the expansion and sustainability of MFIs in Bihar. This can be seen through an increase in the number of active borrowers and loan disbursements by MFIs since these policies were put into effect.

There are following findings on this study

- Lack of government support has hindered the growth of microfinance institutions in Bihar.
- Limited access to financial resources has restricted the expansion and outreach of MFIs in the state.
- Government policies that prioritize agricultural credit have neglected the needs of smaller, micro-level finance providers.
- Poor infrastructure and inadequate transportation facilities make it difficult for MFIs to reach remote areas in Bihar, where there is a high demand for their services.
- The absence of clear regulations on interest rates and loan repayment periods has created uncertainty and instability within the microfinance sector.
- Inconsistent tax policies have resulted in higher operational costs for MFIs, leading to lower profitability and sustainability.
- The government policies in Bihar have a significant impact on the growth of microfinance institutions (MFIs).
- The state government has introduced various policies and schemes to promote financial inclusion and support the development of MFIs.
- These policies have led to an increase in the number of MFIs operating in Bihar, providing access to credit and other financial services for underprivileged communities.

Suggestions

Bihar, a state in eastern India, has been struggling with poverty and underdevelopment issues for many years. Microfinance institutions (MFIs) have emerged as a potential solution to these problems by providing financial services to the poor and marginalized sections of society. These MFIs are playing a crucial role in promoting economic growth and empowering individuals in Bihar. However, their growth is hindered by various government policies that need significant improvement.

There are following suggestions on this study

- Introduce government subsidies or tax breaks for microfinance institutions (MFIs) operating in Bihar to encourage their growth and sustainability.
- Create a favourable regulatory environment that supports the development of MFIs by streamlining

licensing procedures, simplifying reporting requirements, and minimizing bureaucratic hurdles.

- Increase access to low-interest loans from state-owned financial institutions for MFIs to expand their outreach and services.
- Encourage collaboration between MFIs and local government bodies to implement community-level social development projects that align with the goals of poverty reduction and economic empowerment.
- Establish a dedicated governmental body responsible for monitoring the performance of MFIs in Bihar and providing support as needed.
- Conduct regular capacity building programs for MFI staff to enhance their skills in financial management, risk assessment, customer service, and other key operational areas.
- Implement policies that promote gender equality within MFIs by encouraging women's participation in leadership roles as well as ensuring equal access to credit for female borrowers.
- Provide technical assistance and training programs on best practices in microfinance operations to help set standards of excellence among existing MFI players in Bihar.

Conclusion

In conclusion, the impact of government policies on the growth of microfinance institutions in Bihar has been both positive and negative. While initiatives like setting up a dedicated agency for microfinance development and promoting self-help groups have helped in the expansion of microfinance services, bureaucratic delays and lack of financial support have hindered their progress. Thus, there is a need for more proactive measures from the government to create an enabling environment for these institutions to thrive. This can include improving access to funding, streamlining regulations, providing training and capacity building programs, and supporting technology adoption. With sustained efforts from both government bodies and microfinance institutions themselves, there is great potential for these organizations to drive economic growth in rural areas while alleviating poverty at the grassroots level.

Limitations of study

Despite the efforts put into conducting this study, there are some limitations that need to be acknowledged. Firstly, due to time constraints and limited resources, the sample size of microfinance institutions in Bihar was relatively small. This may have affected the accuracy and generalizability of our findings. Moreover, since this is a qualitative study based on secondary data analysis, there is a possibility of bias in the data collected. The reliability of information from government reports and publications may also be questioned. Additionally, we were unable to include all relevant government policies as some were not easily accessible or had incomplete information available. This could potentially impact the comprehensiveness and depth of our analysis. Furthermore, it should be noted that microfinance institutions operate in complex socio-economic environments which further adds to the complexity of measuring their growth solely based on government policies. Finally, as with any research study conducted on a specific region or context, there may be factors unique to Bihar that cannot be generalized to other areas or countries.

Further research

A Comparative Analysis shows that government policies have a significant impact on the growth of microfinance institutions in Bihar. The state has a large number of people living below the poverty line, making it an ideal location for microfinance institutions to thrive. However, the success of these institutions is heavily reliant on supportive government policies and initiatives. One major factor affecting the growth of microfinance institutions in Bihar is the availability of financial resources. Despite having a large population in need of small loans, traditional banks are often unable or unwilling to provide them with credit due to strict requirements and high interest rates. In such cases, microfinance comes into play as it provides access to financial services for those who are otherwise excluded from mainstream banking.

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