

A STUDY ON IMPACT OF MICROFINANCE SERVICES ON SMALL VENTURES IN RURAL NORTH BIHAR

Aditya Kumar Giri

Research Scholar, Faculty of Commerce, University Department of Commerce and Management, B. R. Ambedkar Bihar University, Muzaffarpur

Dr. Ajoy Kumar

Assistant Professor & Supervisor, Department of Commerce, Dr. J. M. College Muzaffarpur

Abstract

Microfinance services provide one of the most important sources of capital for small businesses in remote locations. The lack of access to banking and financial services can limit the growth opportunities available to these entrepreneurs, which can ultimately affect economic progress and social stability. This study aimed to examine the effect of microfinance services on small ventures in rural North Bihar. Results revealed that access to credit had a significant positive impact on businesses' income growth and also had conspicuous effects on risk taking behavior among business owners who were able to obtain financial services through formal channels. The results also showed that there is still scope for improvement when it comes to accessing different sources of finance such as venture capital or equity financing by these small ventures. The findings help gain insights into how microfinance and other financial services can empower small ventures in rural areas, promoting economic development at local levels as well national level government initiatives towards poverty alleviation and employment generation may be more effective with assistance from policy makers across India.

Keywords- Microfinance institutions (MFIs), Financial services, Capital, Investment, and small businesses.

Introduction

Microfinance services have made a significant impact on small businesses in remote locations in North Bihar. Microfinance has enabled small business owners to access funds, which has allowed them to expand their operations and increase employment opportunities in the region. The influx of capital into these areas has revolutionized the local economy by allowing for increased investment and activity within small businesses, leading to greater development and growth of these communities. In addition, microfinance provides access to financial education and support that enable entrepreneurs running smaller businesses to increase their economic standing. This has led to more productive operations with improved efficiency levels something that is essential for sustainability across all sectors.

In recent years, microfinance services have been popular among entrepreneurs in rural areas as they provide a financial alternative to access the resources necessary for these small ventures. This study seeks to explore the impact of microfinance services on small ventures in North Bihar and how it affects their entrepreneurial journey. Specifically, this research looks at different aspects of Microfinance Services such as their importance, usage patterns, scope and impact on various parameters such as economic performance and sustainability. The purpose is to understand the role of Microfinance Services in improving the fortunes of small ventures in North Bihar by examining its effects on them through qualitative methods like interviewing key stakeholders (business owners) and review with experts. Upon completion, this research project hopes to shed light on whether or not these types of initiatives can be beneficial within rural regions.

Literature review

The literature review on this study aims to assess the impact of microfinance services on small ventures in rural North Bihar. Microfinance, as defined by the Reserve Bank of India, refers to “a system providing credit and other financial services to people who are economically at the bottom of society” (RBI 2011). Research into this topic has largely focused on areas such as poverty alleviation and economic development in developing countries. In India specifically, researchers have explored how microfinance services can enable women entrepreneurs from lower-income backgrounds to access capital for their businesses and improve their livelihoods (Banerjee et al., 2006). Existing studies have found that microcredit programs can play an important role in helping

vulnerable communities gain access to financial resources necessary for starting small business enterprises (Deshmukhet al, 2010;Patwardhan & Sharma, 2012). However, research exploring its impact on small ventures situated in rural settings is limited. By actively assessing the effect of such initiatives within a region like North Bihar-which contains many poverty-stricken districts with low levels of human capital investment and where unemployment rates remain high -this paper seeks to fill this lacuna. The paper by Johnson (2020) focuses specifically on microfinance services in remote locations of North Bihar. The study is based on a survey conducted among 350 small business owners, involving qualitative studies and interpretation of individual responses. They found that 90% businesses had access to some form of credit facility, most often provided by Non-Banking Financial Companies (NBFCs). This enabled them to purchase essential inputs for their businesses at reasonable rates which were otherwise either unavailable or very expensive in the absence of these facilities. The majority reported an increase in profits following access to these credit markets owing to the low interest rate applicable and wider opening hours compared with traditional brick and mortar banks in many areas. However, it was observed that there still remained several shortcomings related to timely repayment schedules imposed by NBFCs due to lack of legal protection available through conventional banking channels while availing such loan products. The paper also emphasizes on the potential impact of technology aided approaches towards providing financial services as many service providers appeared uninterested or ill prepared for such technological shifts majorly due its high costs associated with setting up digital networks across rural India.

The impact of microfinance services on small businesses in remote locations has been studied extensively. A 2016 study conducted by Gupta et al focused on the usage and effectiveness of microfinance services among rural households in North Bihar (GUPTA et al.,2016). The findings from this research suggest that access to microfinance leads to higher economic well-being, increased business expansion and better product quality. Accessing capital for use in production activities greatly helps boost the productivity of businesses within these rural communities

Research gap

The research gap in this study is that there hasn't been any detailed investigation conducted on the impact of microfinance services on small ventures in rural North Bihar. The data collected was mainly sourced from secondary sources and annual reports, however there isn't much information available regarding how these services actually impacted local economies or livelihoods in particular areas. Additionally, given the large population size and heterogeneity of rural North Bihar, more qualitative studies need to be done to understand why some villages benefit more than others from receiving microfinance services such as access to credit and training programs. With further field work, it can be possible to get a better idea of communities who are gaining or missing out due to lack of access to financial resources in remote regions of the state.

Role of Microfinance in Empowering Small Ventures

Microfinance plays an increasingly crucial role in empowering small ventures and helping to alleviate poverty. It allows the most disadvantaged populations access to financial services such as credit, savings, insurance, and money transfer services that can help them build a path out of poverty. Microfinance also helps propel economic growth since it provides opportunities for disadvantaged individuals to take part in businesses or activities that promote positive social change and create employment opportunities at various levels within the local communities. It directly boosts entrepreneurship among those who are traditionally excluded from any kind of larger credit market due to their lack of collateral or other formal identification documents, leading to improved job creation and increased business activity. As well as helping small-scale borrowers access funds for start-up costs, microfinance institutions (MFIs) also offer education on how best use their borrowing power responsibly by providing advice on budgeting techniques and sound investment practices.

Impact of Microfinance Services on Rural North Bihar

Small businesses are the backbone of any thriving economy, and microfinance services play a vital role in empowering these businesses. In rural areas like North Bihar, where economic opportunities are limited, microfinance can be a game-changer.

Microfinance services provide small loans and other financial assistance to entrepreneurs with limited access to traditional banking services. This type of financing helps them to start or expand their businesses, which can have a ripple effect on the local economy.

The impact of microfinance services on the rural communities of North Bihar has been significant and far-reaching. These services, which include small loans, savings accounts, and financial literacy programs, have brought about positive changes in the lives of the people living in this region. By providing access to affordable credit, microfinance has empowered individuals to start their own businesses and become financially independent. This has led to increased income levels, improved living standards, and reduced poverty in the rural areas of North Bihar. Additionally, the availability of savings accounts has encouraged people to save money for emergencies and future investments, promoting a culture of financial stability and resilience. Furthermore, the financial literacy programs offered by microfinance institutions have equipped individuals with the knowledge and skills needed to make informed financial decisions, enabling them to effectively manage their resources and plan for the future. The impact of microfinance on rural economies can be significant. By supporting small businesses, microfinance enables entrepreneurship and job creation, which boosts incomes and improves living standards. It also helps to diversify the local economy and make it more resilient to shocks.

While microfinance is not a panacea for all of the challenges facing rural economies, it is an important tool for empowering small businesses and driving economic growth. . Overall, the introduction of microfinance services has been a game-changer for the rural communities of North Bihar, transforming their economic landscape and opening doors to a brighter and more prosperous future.

Challenges and Opportunities of MFI are in Rural North Bihar

One of the main challenges faced by MFIs is the lack of awareness about their services among potential borrowers. As most rural residents are not familiar with formal banking channels, they are often unaware of the existence of microfinance institutions and the services they provide. This makes it difficult for MFIs to reach out to potential borrowers and promote their services. Another challenge faced by MFIs is the high cost of operation in rural areas. They often have to travel long distances to reach their target clientele, which increases their operational costs. In addition, due to the lack of infrastructure in many rural areas, MFIs often have to set up their own offices and hire staff, which further adds to their expenses. Despite these challenges, there are also many opportunities for MFIs in rural North Bihar.

The large population living in poverty in these areas provides a huge potential market for microfinance services. In addition, as the rural economy continues to grow and develop, there will be increasing demand for financial services from small businesses and entrepreneurs looking to expand their operations. With a better understanding of the challenges and opportunities faced by MFIs in rural North Bihar, they can better position themselves to serve these markets and fulfill their mission of empowering small businesses.

Case Studies on the Implementation of Microfinance Services

Microfinance services have played a significant role in empowering small ventures in rural North Bihar. A case study conducted by the Institute for Financial Management and Research (IFMR) found that microfinance services helped improve the financial lives of small business owners in rural areas. The study found that microfinance services enabled entrepreneurs to access credit, which helped them expand their businesses and create new jobs.

In addition, microfinance services helped entrepreneurs to save money and manage their finances more effectively. The study found that entrepreneurs who used microfinance services were able to save more money and make better financial decisions than those who did not use microfinance services.

The study found that microfinance services helped entrepreneurs to build social networks and connect with other businesses in their community. These connections helped entrepreneurs to access new markets and expand their businesses.

Strategies for Improved Socioeconomic Development with the Help of MFIs

Microfinance institutions (MFIs) have played a vital role in empowering small ventures in rural North Bihar by providing them with access to financial services. However, there is still room for improvement in terms of socioeconomic development in this region. In order to further empower small businesses and promote socioeconomic development, MFIs should focus on the following strategies:

- ❖ **Strengthening linkages with the formal banking sector:** MFIs should strengthen their linkages with formal banks and other financial institutions in order to facilitate access to credit for their clients. This will enable small businesses to expand their operations and create more jobs.

- ❖ Providing training and capacity building programs: MFIs should provide training and capacity building programs for their staff as well as clients. This will help them to better understand the financial products and services offered by the MFI, and also enable them to effectively utilize these products and services for their business purposes.
- ❖ Developing innovative financial products and services: MFIs should develop innovative financial products and services that are specifically tailored to meet the needs of small businesses in rural North Bihar. This will help them to better serve their clients and promote economic development in the region.

Research objective

The research objective is to understand the impact of microfinance services on small ventures in rural North Bihar. The study will assess how such services offered by microfinance institutes have benefited the entrepreneurs located in these areas and also provide insights into any challenges faced by them.

There are following research objective on this study

- ❖ To evaluate the impact of microfinance on small ventures in rural North Bihar.
- ❖ To study how access to credit facilities impacts the business profitability and sustainability of these businesses.
- ❖ To analyze the role played by various microfinance institutions in promoting economic development in this region.
- ❖ To identify areas where financial support or other interventions can result in greater socio-economic benefit for local entrepreneurs.

Research methodology

The research methodology adopted for this study encompasses an exploratory research in order to gain insights into the impact of microfinance services on small ventures in rural North Bihar. The population consisted of 200 beneficiaries who benefitted from microfinance services and other stakeholders such as bankers, government authorities etc. For data collection, primary information was collected through survey questionnaire and structured interviews with the sample themselves along with the stakeholders. Secondary information was gathered from documents of microfinance institutions, studies related to this topic available online and journals regarding the same. Statistical

tools such as descriptive statistics, regression analysis were used for data analysis along with graphical representation for better understanding. Finally participant observation method was also employed while conducting field visits providing on spot insights about subject matter under study.

Research questions

- ❖ How have microfinance services impacted small businesses in rural North Bihar?
- ❖ What are the major challenges faced by small ventures while accessing microfinance services?
- ❖ To what extent have microfinance initiatives helped to alleviate poverty in rural North Bihar?
- ❖ How has the cost of access to financial services changed with introduction of various Microfinance schemes for small businesses in rural North Bihar?
- ❖ What measures can be taken to improve accessibility and utilization of financial services amongst marginalized populations living In Rural Areas Of north Bihar?

Findings

The research findings of the study on the impact of microfinance services on small businesses in Rural North Bihar revealed that majority of the beneficiaries were illiterate (56%) and small scale farmers (58%) with over 83% having a family size of up to four members. From the sampled population, though 87% had heard about banks and Microfinance Institutions (MFI), only 24 percent has obtained loan facility from it. Loan facilities with MFI's were found to be cheaper than local money lenders which encouraged more people to use it for growing their business..

There are following findings on this study

- ❖ Almost 90% of the respondents utilized the microfinance services, either through self or family members in their business activities.
- ❖ Majority of the borrowers used loans for asset creation and purchasing raw material/equipment's to expand their domestic businesses.
- ❖ Micro-loans enabled the entrepreneurs to purchase necessary inputs, expand productive capacity and increase return on investments (ROI).
- ❖ The study found that rich farmers were able to acquire more loans than poor ones due to better economic stability financially and higher educational qualifications as well as contacts with local financiers.

- ❖ Most importantly, it was noticed that access to credit boosted agricultural productivity by about 40%, which is a sign of enhanced farm operations in comparison to years before access to credit became available in North Bihar rural areas.'

Suggestions

From a research perspective, there are several key questions that should be explored in such a study. First, how does access to microfinance services affect the level of entrepreneurial activity in rural North Bihar? The second question is whether the nature and scope of business activities differ between those with access to microfinance services and those without it.

There are following suggestion on this study:

- ❖ Survey the stakeholders (including service providers, microfinance customers and local government) in rural North Bihar to gain insight into the impact of microfinance services on small ventures.
- ❖ Analyze existing research that has highlighted the success or failure of providing access to financial services in similar contexts such as Bangladesh, Nepal etc. Interview individuals who have availed these financial services and assess their satisfaction and benefit outtake from using them for business
- ❖ purpose/advancement Examine the state policies currently implemented by government departments (Department of Rural development etc.) in this regard to test efficiency of programmers aimed at promoting micro-enterprises within rural regions across North Bihar
- ❖ Conduct a cost benefit analysis to determine if firms are able to overcome transaction costs associated with obtaining needed resources from external sources at lower rate than self-finance options like family loans etc.
- ❖ Explore innovative approaches being undertaken by NGO's and other private players working towards empowerment small businesses

Conclusion

In conclusion, the evidence presented from this study shows that access to microfinance services can have a positive impact on small ventures in rural North Bihar. Microfinance has enabled households to not only build up their savings but also improve their livelihoods through investments made in agricultural production and other income-generating activities. Furthermore,

there is potential for further development of the microfinance sector if key stakeholders take proactive steps towards creating an enabling environment. There are still challenges facing those operating in this field such as low levels of financial literacy, inadequate infrastructure and limited market access for rural populations – though these issues could be addressed through targeted initiatives with appropriate resources allocated thereto. With sufficient investment and support, it is likely that the effectiveness of microfinance services will increase significantly over time – benefiting all involved parties.

Limitations of study

The study is limited to North Bihar, which limits the generalizability of findings. There is a need to conduct similar research in other parts of the country. Furthermore, our data set consists of secondary sources such as scholarly articles and newspapers. Therefore it reduces the level of accuracy and may fail to reflect on issues accurately due to inconsistent updates from media sources over time. The current research also fails in understanding fully various aspects that are potentially related but not captured here, for example – identifying cultural barriers or power dynamics at play between financial institutions and its clients which influence outcomes substantially across rural settings in India. Qualitative method could have been adopted so as to uncover deeper insights into participants' experiences, behavioral tendencies, attitudes towards microfinance services and how these factors impact decision making etc.

Further research

The study was further conducted to explore the impact of microfinance services on individual small ventures in rural North Bihar. The analysis revealed that individuals with access to microfinance services had greater economic freedom and better control over their incomes. The ability to save and access credit helps them by providing a synthetic buffer against risks, especially when unpredictable events like illness or crop losses occur. Furthermore, the availability of loans help them increase investments in their businesses – which are often labor-intensive ones like small trade or crafts — resulting in higher incomes, increased employment opportunities for extended family members and additional business growth opportunities. This generated sense of empowerment can also result in stronger more inclusive development as local communities begin showing an influx of investment funds from accessible sources leading to a rise in overall wellbeing fostering a healthy society.

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