



# Social and Commercial Efficiency: A study of Microfinance Institutions in reference to North Bihar

**Pallawi Priya**

Research Scholar,

Department of Management,

Amity Business School, Amity University, Madhya Pradesh.

**Abstract :** The Micro Finance Institutions are playing an important role of financial intermediaries in the microfinance sector. They act as an important conduit for extending financial services to the micro finance sector in the country by raising resources from Banks and other institutions and extending loans to SHG members. A large number of institutions both in public sector as well as private sector provide micro finance services to the poor for their livelihood promotion. So far North Bihar is concerned it may be said that aiming at the Bihar's development, the central government has initiated many livelihood promotion efforts (programs) in the state. Though the Bihar government has done little innovation, it has accommodated the programs that came its way. From the beginning, the Departments of Rural Development, Women and Child Welfare, Economic Affairs, etc. have been playing an important role in the promotion of the SHG movement in Bihar and North Bihar. A study regarding social and commercial efficiency regarding microfinance institutions of North Bihar is done by me which is collected from the microfinance programmes. The impact of microfinance programme on poverty, employment and women empowerment is measured by an analysis of the data.

**Index Terms - Microfinance, Livelihood, SHGs, Social upliftment, Poverty, Employment, Women empowerment.**

## I. INTRODUCTION

Bihar is located in the Northern-Eastern part of the country between latitude 24°-20'-10" N ~ 27°-31'-15" N and longitude 82°-19'-50" E ~ 88°-17'-40" E. It is an entirely land-locked state, in Sub Tropical region of Temperate zone. Bihar lies mid-way between the humid West Bengal in the east and the sub humid Uttar Pradesh in the west which provides it with a transitional position in respect of climate, economy and culture. It is bounded by Nepal in the north and by Jharkhand in the south. Bihar plain is divided into two unequal halves North Bihar and South Bihar by the river Ganga which flows through the middle from west to east. Bihar's land has average elevation above sea level is 173 feet. The state is divided into 9 divisions and 38 districts, for administrative purposes. The term North Bihar is used for the region of Bihar, lying on north of Ganga river and east of Gandak river. Generally speaking, it includes: Tirhut division, Darbhanga division, Kosi division, Purnia division, Khagaria district and Begusarai district of Munger division, Naugachia police district of Bhagalpur district of Bhagalpur division.

In North Bihar, agriculture, animal husbandry and fishery are the main economy. Beside these, a few agro-based industries like Jute mill, sugar mill etc. also add to the economy of the region. Agriculture is the main economic activity of the region. The main crops are paddy, wheat, pulses, moong, urad, arhar, jute, maize. The highly demanded and costly agro-products like Chili, coriander, Haldi,

ginger, banana, tobacco etc. are also grown in the region. Makhan (water chestnut) *Euryale ferox* and Litchi are almost unique to North Bihar. Many medicinal and flowering plants have grown in North Bihar which could have an international market. Because of improper planning and unwillingness of Bihar govt to develop this region, North Bihar is today counted among the most backward regions of India. Moreover, the government sponsored flood destroys crops under unrecorded acres of land.

North Bihar is an agriculturally predominant region of Bihar. Agriculture tended to be prime mover of the economy of the state where in 80% of the population still remains dependent on agriculture for their livelihood. In the present years, microfinance has gained increasing importance as an effective method in improving the quality of life and living standards of the poorest of the poor. This importance has given rise to a movement that now has a global outreach and has penetrated in the remote rural areas, besides slums and towns. Microfinance is the provision of financial services such as saving, loans and insurance for the poor segment of the society who are unable to obtain such services from the formal financial sector. Microfinance is gathering momentum to become a significant force in the India overall financial system. The growth of micro finance in Bihar is visible in many aspects. There are more than 2000 NGOs involved in the NABARD SHG-Bank linkage program.

## II. IMPACT OF MICROFINANCE ON ECONOMIC DEVELOPMENT OF NORTH BIHAR

A number of field researches have been done by various agencies to study the impact of microfinance on socio-economic aspects of the respondents in India. These field studies include study commissioned by NABARD in 2002 with financial assistance from SDC where GTZ which covered 60 SHGs in eastern India. The World Bank Policy Paper details in the findings of Rural Finance Access Survey (RFAS) done by World Bank in association with NCAER. The RFAS covered 736 SHGs in the state of Andhra Pradesh and Uttar Pradesh. These field studies reveal divergent research findings. But the common findings are of the opinion that there is some increase in income levels and household assets in real terms among the respondents. These studies also brought out the fact that major occupation of group members was agriculture along with other activities like farm labour and poultry. Being rain fed area, lack of irrigation facility; declining agricultural outputs and fragmentation of land have accentuated their vulnerabilities over a period of time. The group members lack any sort of specific handicraft skills and do not receive any skill development training for undertaking any other non- farm activities. In most of the cases, loans from financial organizations are used by them for meeting their consumptions and emergency requirement. It also shows that group members do not have confidence to use credit for productive purposes in view of lack of opportunities and skills. Irrigation and depressed commodity prices act as deterrent in farm sector investments, while lack of skills and invasion of rural market by big consumer goods companies reduce the scope for rural micro enterprises. In this scenario it seems rather have to visualize flourishing of micro enterprises through provision of microcredit. The growth of microfinance organizations in India has also to be seen in the light of financial sector reforms in India. Under the new approach, institutional viability is of prime concern and instruments of directed credit and interest rate directives have been totally diluted or done away with. As a consequence, banks are increasingly shying away from rural lending as well as rationalizing their branch net work in rural area. It is found that between 1977 and 1990 (Pre reform period) more bank branches were opened in financially less developed states, but the pattern was reversed in post reform period. Thus the access of the rural poor to credit through traditional bank lending has been reduced in post reform era. The policy recommendation is to fill up this gap through microfinance. As per the new design NABARD is aggressively lending rural poor through Self Help Groups and Microfinance Institutions. High recovery rate under the program is used to justify the dictum that poor need timely and adequate credit rather than

cheap credit. It is probably right in observing that commercial microfinance is not meant for core poor or destitute but is rather aimed at economically active poor. We opine that providing credit to people who are too poor to use it effectively helps neither borrower nor lender and would only lead to increasing debt burden. This segment should not be the target market for financial sector but of state poverty and welfare programs.

A study regarding impact of micro finance in rural economic development of North Bihar Region is done from the microfinance programmes. The impact of microfinance programme on poverty, employment and women empowerment is measured by an analysis of the data. The socio-economic profile of the surveyed respondents of the Muzaffarpur district shows that most of the respondents and non-respondents are married women in the age group of 26 to 40 years. Most of the respondents are literate and belong to scheduled caste categories. The residential status of the respondents shows that almost all of them have their own houses. Most of the respondents have drainage facility at their houses but almost 50 per cent do not have toilet facility. Seventy-seven per cent of the respondents and 85 per cent of the non-respondents do not possess any agricultural land. The general characteristics of SHGs in the study area show that most of the groups are 2.5 to 8 years old. The size of the groups in the study area ranges from 9 to 20 members, and there are on an average 13 members in each group. All the group members save and contribute an average amount of Rs. 100 per month to the group savings fund. Loans are provided mainly by the commercial banks and these loans are generally divided by the group members according to their individual requirements. It is found that only 42.8 per cent of the total group loans in the sample surveyed are utilised for productive purposes, while the major part of the loans is utilised for other purposes like consumption, construction, marriage, purchasing household consumer durables etc.

### III. IMPACT OF MICROFINANCE ON POVERTY :

So far poverty is concerned two different methods have been used to determine the change in income. In the first method, the income of respondents after joining the microfinance programme (post-SHG) is compared with the income of same respondents before joining the programme (pre-SHG). In the second method, the income of respondents after joining the microfinance programme is compared with that of non-respondents. It is found that after joining the microfinance programme the income of the programme respondents has increased by 2.5 times. The average individual income of the respondents is Rs. 1,725 per month in post-SHG as compared to Rs. 718 per month in pre-SHG situation. A comparison between respondents and non-respondents provides that the average income of the respondents is 2.7 times more than the average income of non-respondents. The average income of non-respondents is just Rs. 638 per month as compared to Rs. 1,725 per month for the respondents. So, the microfinance programme has helped its respondents to increase their contribution to the household income. It is found that the average income of the respondent households in North Bihar is Rs.5,905 per month in pre-SHG situation and Rs. 6,912 per month in post-SHG. This shows an increase of Rs.1,007 per month. Thus, after joining the microfinance programme the household income in North Bihar has increased by 17 percent. The comparison further provides that the income of respondent households is 18 percent higher than the income of non-respondent households. In this way, the microfinance programme has led to an increase in the individual as well as household income of the programme respondents in the North Bihar.

In order to measure the impact of maturity of the group on the income of respondents, the SHGs are divided into three categories based on the age of the group. These three categories are named as young groups (less than 3 years old), middle age groups (3 to 6 years old) and mature groups (more than 6 years old). The average increase in income in post-SHG as compared to pre-SHG is found to be Rs. 625 per month for young groups, Rs. 924 per month for middle-age group and Rs. 1,745 per month for mature group respondents. Thus, it is found that as the group attains maturity in years, the addition in income increases. Analysis of variance

technique shows that these differences are significant at one percent level of significance. The increase in income is mainly due to the fact that the members belonging to a mature group establish themselves in the income generating activities by availing repeat loans.

The impact of microfinance programme has been assessed separately for the BPL households. The absolute poverty line which is fixed at Rs. 2,500 per month per household by the Government of Bihar has been used to identify the BPL households. It is found that at the time of forming the SHGs, very less number of respondents from the BPL households are selected. In Bihar, only 19 percent respondent households are BPL, while the remaining 81 percent households are above poverty line, according to the poverty line definition. After getting the benefits of the programme all BPL households could not cross the poverty line and it is observed that 9 percent of the total households still remained BPL. This shows that the increase in income of these poor is just 13 percent and they have utilised just 12 percent of their loans for productive purposes. This may be due to the reason that the income of these poor was very less, and they used the loans for consumption purpose and to fulfil other urgent and immediate needs. The remaining ten percent of the BPL households utilised 66 percent of loans for productive purposes and crossed the poverty line with 63 percent increase in their income after joining the programme. These poor households are the largest beneficiaries of the microfinance programme in the Muzaffarpur district. So, it is found that extremely poor households whose income was much below the poverty line were not able to cross the poverty line in the district.

The absolutely defined poverty line is also used to calculate the headcount index, poverty gap and squared poverty gap indexes for the respondent and non-respondent households. The calculated values of these indexes show that the depth and severity of poverty is high for the non-respondents as compared to the programme respondents. Besides this, the Lorenz curve and Gini coefficient methods are used to find out the impact of microfinance programme on the distribution of household income in the North Bihar. The results show that the distribution of household income among the non-respondents is more unequal as compared to the respondent households. So, it can be said that microfinance programme helps not only in raising the level of income but it also reduces the income inequalities in the distribution of household income among the programme respondents. Poor people are very much vulnerable to the unexpected economic shocks faced by them, such as death of an earning family member, health expenditure, property loss and business failure. They are also vulnerable to some predictable and unavoidable expenses such as repair of house or marriage expenses. This study finds out the role of microfinance programme in helping the respondents to face these economic shocks. The field data provides that 41 percent of the respondents and 44 percent of the non-respondents faced these economic shocks during the past two years from the time of the survey. More than 50 percent of the respondents faced their economic crisis by utilising group loans and their own savings but the non-respondents mainly remained dependent on the money-lenders who charged exorbitant interest rates. Therefore, microfinance programme has resulted in reducing household vulnerability and the respondent households are comparatively more able to face the financial crisis without falling into a debt trap in the North Bihar.

A composite poverty index has been prepared by combining ten monetary and non-monetary indicators relating to poverty. The index shows that a negligible percentage of both respondent and non-respondent households are in the 'extreme poor' category. It indicates that bottom poor people have not been included under the microfinance programme. However, it has been found that microfinance programme has benefited the moderate poor and they have shifted to the non-poor categories. A multiple linear regression technique is applied on the values of this poverty index; and it is found that group maturity, household income and the highest level of education in the household are the variables which have reduced poverty significantly. It has also been found that the households with large family size are poorer than the households with smaller family size in the North Bihar.

#### IV. IMPACT OF MICROFINANCE ON EMPLOYMENT

Microfinance programme generates self-employment opportunities in rural areas of North Bihar. The programme respondents utilise bank loans to start small business activities and generate income. The study shows that microfinance programme has helped respondents to increase their level of employment. Before joining the microfinance programme in the district, 49 percent of the total respondents were employed and 51 percent were unemployed. But after joining the microfinance programme the respondents received loans and utilized these loans to start economic activities. As a result, 80 percent of the respondents were employed in post-SHG situation. Further, the respondents are compared with the non-respondents. It is found that only 48 per cent of the non-respondents are employed as compared to the 80 percent of respondents. Employment of the respondents is measured in number of employment days per annum. It is found that respondents were employed for 80 person days per annum before joining the microfinance programme. But after receiving the benefits of the programme the respondents are employed for average 160 days. Therefore, microfinance programme has generated 80 additional days of employment per annum for the programme respondents. It is found that the nonrespondents are employed for just 78 days per annum as compared to 160 days for the respondents. In this way, the microfinance programme has not only helped in increasing the number of persons employed but also increased their employment days per annum. In addition to this, it was also found that most of the non-respondents are engaged in activities in which they are paid low wages against their hard work such as domestic labour, football sewing etc. On the other hand, many of the respondents in the North Bihar have started manufacturing/small business activities like petty shops, dairy, garland making, rope making, surf making etc. But all the respondents could not start these types of nontraditional activities due to lack of skill training and marketing support to sell the products. In order to measure the impact of training on the level of employment, the employment status of trained and untrained respondents is compared and it is found that the skill development training has a significant influence in employment generation. Most of the trained respondents (91 percent) are employed and moreover, they are employed for large number of days per annum as compared to the untrained respondents. It is found that just 29 percent of the respondents are provided with some skill development training to start some income generating activities.

The impact of group maturity on the level of employment of the programme respondents has also been discussed. The results show that maturity of the group has influenced positively to the employment generation among the respondents of the programme. The employment status shows that 62 percent of the respondents are employed in young groups, while 86 and 98 percent respondents are employed in middle age and mature groups respectively. It is also found that the average number of employment days of the respondents of mature groups are more than the young groups.

It is further seen that the surveyed respondents utilised their loans for different purposes. Some respondents who were employed at the time of joining the microfinance programme utilised whole or a part of group loans to expand or diversify their existing economic activities. As a result microfinance programme has increased their level of employment and income. But some of these respondents did not utilise loans for productive purposes. Their level of employment and income remained the same as in their pre-SHG situation. There are some others who were unemployed at the time of joining microfinance programme but they invested the group loans for self-employment purposes. The study measures the impact of microfinance programme in generating employment and income for these different types of respondents. It is found that the respondents who have expanded or diversified their business are employed for more number of days as compared to other respondents. But the addition in employment generated is the highest for newly employed respondents. The study also finds the average income generated per month for these different microfinance beneficiaries. It is found that addition in income is higher for the respondents who expanded their business using the microfinance loans as compared to the addition in income of the newly employed respondents. Thus, comparing both the results it is found that the addition in income is more for the respondents who expanded their businesses, while

the addition in employment is more for the newly employed respondents. It is also found that the already employed respondents are generating more income by working for lesser number of hours as compared to the newly employed respondents. It may be due to their work experience.

A multiple regression technique is applied to determine the factors influencing the employment generation after joining the microfinance programme. The regression results provide that group maturity, group loans used for productive purposes, employment in pre-SHG situation, and household income are significantly increasing the level of employment. It is also found that age and education level of the respondents are negatively related to the level of employment.

## V. IMPACT OF MICROFINANCE ON WOMEN EMPOWERMENT

Women empowerment is a process which gives power or authority to challenge submissive social condition or status of the women. It is a multi-dimensional progressive process. The unique feature of microfinance programme is that it focuses on women for development. There are more than ninety per cent women covered under this programme of the North Bihar. The programme respondents get financial assistance for starting business activities in order to earn an independent income which subsequently helps them to contribute towards their households. This economic independence empowers the women respondents of the programme with greater self-respect and self-confidence. Women empowerment improves their status and abilities which enable them to live their lives independently. Twenty-one indicators of women empowerment have been taken into consideration in this study. These indicators measure economic; socio-cultural and familial; political; and education skill and training empowerment.

It is found that the microfinance programme increases the economic prospects of the respondents which help them to have an access and control over the household economic resources such as ownership of house, ownership of land, and possession of gold and jewellery. In this way, the role of women is changed altogether; they have become financially independent; and are involved in every financial decision of their families. Microfinance programme raises the status of women from a mere consumer to a producer and from economically dependent to an independent. The study shows that as the women start contributing to the household income they are involved in the various household financial decisions such as preparing household budget, making small and large purchases, selling property etc. It is found that 21 percent of the respondents govern the household financial decisions as compared to 11 percent of the nonrespondents. However, in majority of the cases, both the husband and wife jointly take the household decisions. SHG members contribute to the group saving fund through fixed instalments at regular intervals. This develops the habit of thrift and banking. It is found that 54 percent of the respondents have savings accounts with banks as compared to only 37 percent of the non-respondents. It is observed that 30 per cent of the respondents deposit money regularly in their savings bank account as compared to 18 per cent of the non-respondents.

Microfinance programme pursued through SHGs in North Bihar is a collective effort of group respondents. The members deal with other members of the society, and also meet the members of other groups in their joint group meetings. The women get an opportunity to come out of the four walls of their houses and meet other members of the society which leads to their socio-cultural and familial empowerment. The programme also increases the level of awareness and physical mobility of its respondents. Respondents of the programme become more confident in visiting other cities and towns than the non-respondents. It has been observed that 46 and 79 percent of the respondents are more confident to visit a city and nearest town as compared to 14 and 69 percent of nonrespondents respectively. The women respondents, who start their small enterprises, have to visit the market for the purchase of raw materials as well as sometimes for selling their product also. This increases the self-confidence of the programme respondents and they can easily go to the market for the purchase of goods. The study shows that 85 percent of the respondents are more confident to visit

the market and buy goods as compared to 71 percent of the non-respondents. In this study, the respondents were asked if they are concerned about the various social problems like dowry, female foeticide, drug addiction, injustice, domestic violence etc. and raise their voice against such evils. It is found that 74 per cent of the respondents and just 27 percent of the non-respondents are more confident in raising their voice against these social evils. The study shows that family members of the programme respondents have started helping the respondents in their domestic work also. Seventy-three per cent of the respondents and 55 percent of the non-respondents reveals that their husbands and other members of family help them regularly in various household chores. This indicates toward the enhanced social and familial empowerment of the respondents.

It is found that besides socio-economic empowerment, microfinance programme has also led to the political empowerment of the women respondents in the district. The impact is measured by comparing the level of political awareness among the programme respondents and non-respondents as well as the interest taken by them to participate in the village political activities. The study shows that both the respondents and non-respondents are aware about the local polity. It is found that almost all the respondents and non-respondents are aware of their voting rights and know the name of their village *sarpanch* also. Further, the respondents are more aware about their state level and national level polity as compared to the non-respondents. The study also has tried to find out the role of women in *panchayat* meetings and the decisions taken for the village development. Fifty-eight percent of the respondents attend the *panchayat* meetings as compared to 43 percent of the non-respondents.

Besides the economic, social and political empowerment of the programme respondents, microfinance programme develops the overall personality of its respondents in the district. The group activities lead to the development of basic skills like writing their name, reading numbers, doing basic arithmetic, maintaining records of financial transactions, filling bank forms, understanding pass-book entries etc. The study shows significant differences between the respondents and non-respondents regarding the development of these basic skills. It is found that 26 percent of the respondents and 34 percent of the non-respondents are illiterate. The study shows that 17 percent of the illiterate respondents and just 13 percent of the non-respondents are able to read numbers and write their name. Therefore, it can be said that even the illiterate programme respondents are more able to read and write as compared to the illiterate non-respondents. The survey results show that seventy-two per cent of the respondents face no difficulty in doing calculations as compared to 54 percent of the non-respondents. Thirty per cent of the respondents and six per cent of the non-respondents maintain regular records of financial transactions. Forty-nine per cent of the respondents face no difficulty in performing basic banking operations as compared to 25 percent of the non-respondents. Besides this, 28 percent of the respondents and 40 percent of the non-respondents cannot perform banking functions in the North Bihar.

The overall impact of microfinance programme in the North Bihar on women empowerment is measured by preparing a Composite Empowerment Index (CEI). The index results show that the programme respondents are more empowered as compared to the non-respondents. A multiple linear regression technique applied on the values of CEI show that the coefficients of regression variables, i.e., education level, group age, employment, household income and spatial mobility of the respondents play an important and significant role in women empowerment. The regression variables, i.e., age and amount of loans used for productive purposes are positively influencing the level of empowerment but these are not very significant.

## VI. CONCLUSION :

There is no doubt that the microfinance programme has made impressive achievements in North Bihar, but a large number of problems arise like underprivileged microfinance intervention, quantum of assistance and sustainability, etc. These problems are still very grave due to their association with this programme. Firstly, one of the problems of microfinance is that poor are still at far reach. The microfinance delivery models have not

highlighted those who are below the poverty line or very poor. Secondly, the Self Help Group Below Poverty Line (SHG-BPL) has no explicit social or economic benchmarks for inclusion of members in the groups to be credit linked. Thirdly, several institutional and psychological problems relating to the rural poor people restrict them to join the programme. The extreme poor often lack self-confidence. That is why they hesitate to join a group where they have to deal with the other group members, bank officials and other promoting institutions. Fourthly, regional disparity is one of the problems of microfinance in North Bihar. The microfinance programme is mainly run by formal financial institutions with the help of SHGs. Fifthly, Microfinance is limited in poorer states of India. The expansion of microfinance programme is comparatively low in the states which have a larger share of the poor. Sixthly, the interest rate of microfinance is very high. Every borrower is interest sensitive and the capacity of borrowing decreases with increase in interest rates. Seventhly, another problem of microfinance is the depth of services provided. Though the outreach of the programme is expanding, large number of people are provided with microfinance services but the amount of loans is very small. Eighthly, unregulated microfinance institutions are the problems of microfinance. Microfinance is provided by many types of institutions. MFIs are covered in varying degrees of regulation under their respective State legislations. There is not a single regulator for this sector. Ninthly, lack of Insurance Services is the problem of microfinance. Rural poor people are vulnerable to financial shocks. A small change in their earning patterns due to natural calamities, health problems, death of earning member etc. can force them to destitute. Consequently, a provision of insurance for the microfinance programme is very essential to help the poor to cross the poverty line.

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