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Thesis Title: Impact of Micro Finance Institutions on Micro and Small Enterprises in India: A Special Reference to Mithilanchal Region of Bihar

Keywords: Microfinance Institutions, Micro and Small Enterprises, Transaction Cost, Financial Literacy, Digitalization, Microfinance Services, Enterprise Growth, Mithilanchal Region

FINDINGS

Microfinance Institutions (MFIs) have emerged as an important source of credit for micro and small enterprises (MSEs) that remain inadequately served by formal financial institutions. The study examines the impact of microfinance services and transaction costs on the profitability, expansion and employment generation of MSEs in the Mithilanchal region of Bihar. It is based on primary data collected from 600 MSEs, comprising 300 enterprises using microfinance services and 300 enterprises using other sources of finance. Propensity Score Matching, process mapping, bivariate analysis, linear regression and logistic regression were used for the analysis.

The findings reveal that women constitute the majority of registered microfinance borrowers; however, nearly 64 per cent of the borrowed funds are utilized by male members of their households. This limits women's control over credit and, in some cases, exposes them to repayment-related harassment. The educational attainment of MSE owners is generally low, with 87.50 per cent not possessing a college degree. MFIs have comparatively greater outreach among Scheduled Castes and Other Backward Castes. Around 93.66 per cent of the surveyed enterprises operate in the service sector, largely because such activities require lower initial investment. Most MSEs provide self-employment or engage family members, while only about one-fourth generate employment outside the household.

The profitability of MSEs was found to be influenced by the loan amount, working capital, age and household size of the owner, ownership of a motor vehicle and financial literacy. However, the use of microfinance services did not have a statistically significant impact on profitability. Enterprise expansion was significantly influenced only by working capital. In contrast, household income, age, financial literacy and the use of microfinance services were significant determinants of employment generation.

Among enterprises using microfinance services, loan amount, ownership of a motor vehicle and transaction costs significantly affected profitability. High transaction costs arising from processing fees, insurance, travel, documentation, group meetings and the time spent completing loan procedures reduce the amount available for productive investment and adversely affect enterprise performance. The loan amounts offered by MFIs were also often inadequate to meet the working-capital and investment requirements of enterprises. Consequently, many borrowers obtained loans from multiple institutions, increasing their repayment burden and risk of indebtedness. A substantial proportion of loans was also diverted towards household consumption rather than income-generating activities.

Overall, microfinance services were found to have a limited impact on profitability and enterprise expansion, although they contributed positively to employment generation. Access to microfinance alone, therefore, does not ensure enterprise growth. Larger need-based loans, lower transaction costs, improved financial literacy, monitoring of loan utilisation, borrower protection and business-development support are required. Carefully planned digitalisation, supported by vernacular-language platforms and training, can further reduce costs and strengthen the contribution of MFIs to the sustainable development of MSEs in the Mithilanchal region.