



A Study on the Impact of Microcredit on Socio-Economic Status of Beneficiaries

Navneet Tiwari ^{aω*} and Jahanara ^{b#}

^a SHUATS, Prayagraj, Uttar Pradesh, India.

^b Department of Agriculture Extension and Communication, SHUATS, Prayagraj, Uttar Pradesh, India.

Authors' contributions

This work was carried out in collaboration among all authors. All authors read and approved the final manuscript.

Article Information

DOI: 10.9734/AJAEES/2023/v41i11840

Open Peer Review History:

This journal follows the Advanced Open Peer Review policy. Identity of the Reviewers, Editor(s) and additional Reviewers, peer review comments, different versions of the manuscript, comments of the editors, etc are available here: <https://www.sdiarticle5.com/review-history/89605>

Original Research Article

Received: 27/10/2022

Accepted: 30/12/2022

Published: 05/02/2023

ABSTRACT

The research aims to study outreach of microfinance in Lucknow district of Indian state of Uttar Pradesh. With the objective of studying outreach the study aims to explore how effectively microfinance is reaching to target population. According to the interpretation, microfinance benefits a lot of poor households, but not considerably rural women who are living below the poverty line. It also has a short affiliation with microfinance, few loan cycles, and no connection to poverty. Ex-post facto research design was used for conducting the research. The outreach of microfinance is question and impact and commitments to reduce poverty seems wage when institutions do not reach the actual target population. Population above poverty cannot be a good indicator for the efficiency of microfinance, while it poses greater questions on the positives impacts of microfinance.

^ω Research Scholar;

[#] Professor and Head;

*Corresponding author: E-mail: tiwarinavneet7125@gmail.com;

Keywords: *Financial inclusion; microfinance; Micro Finance Institutions (MFIS); micro credit; outreach; poverty; Self Help Groups (SHGs) etc.*

1. INTRODUCTION

Microcredit is a common form of microfinance that involves an extremely small loan given to an individual to help them become self-employed or grow a small business. These borrowers tend to be low-income individuals, especially from less developed countries (LDCs). Microcredit is also known as "micro lending" or "microloan" [1].

"Considering the number of clients (the poor) and range of services, there is tremendous scope for the development of micro finance market in India. Micro Finance institutions NGOs NBFCs, Banks etc. have a pivotal role to play in micro-finance market. In order to give boost to this considering the number of clients (the poor) and range of services, there is tremendous scope for the development of micro finance market in India" [2,3]. "Micro Finance institutions NGOs NBFCs, Banks etc. have a pivotal role to play in micro-finance market. In order to give boost to this sector, there is need of introduction of conducive regulatory framework for protection of the clients, the institutions and progress of the market" [4-7]. "Micro finance for micro enterprises can be one of the most effective poverty reducing instruments. Expansion of micro finance markets world over has shown that small finances to small enterprises can be instrumental in reducing poverty. The need of the hour is to promote more and more micro finance institutions and strengthen them so that they are in a position to create financial resources and provide more services to the needy poor people. These activities are mostly based on local resources. In order to give impetus to micro entrepreneurial activities by poor people in rural as well urban areas, micro finance institutions should be promoted to provide adequate, regular micro credit to the needy entrepreneurs. Micro finance programme is the most promising strategic weapon for attacking poverty by way of providing development funds to so far neglected target groups" [8,9]. "If poor people are given opportunities to undertake entrepreneurial activities supported by proper access to credit, it will certainly enable them to come out of poverty trap" [10-11,8]. Development of micro finance strengthens not only the rural sector but also the financial system of the country as a whole. There is increased potentiality for profitability in the rural areas for

banks and financial institutions (FIs) through higher deposit mobilization and credit off take.

2. METHODOLOGY

The study was conducted in purposively selected district of Lucknow, Uttar Pradesh. The Lucknow district is divided into 8 developmental blocks i.e. Bakshi ka talab, Chinhat, Gosainganj, Kakori, Mal, Mahiabad, Mohanlalganj and Sarojani Nagar. Out of these, the block namely Kakori was selected purposively for the study because it has maximum number (27) of SHGs. A list of all the beneficiaries of microfinance through SHGs were obtained from the Block Development office of Kakori block of Lucknow district. The ultimate beneficiaries of microfinance through SHGs were separated from the list. 180 beneficiaries and 180 non beneficiaries were selected randomly from the list, making the total sample size of 360 respondents. Ex-post facto research design was used for conducting the research.

3. RESULTS AND DISCUSSION

3.1 Impact of Micro Finance on the Socio-economic Status of Beneficiaries

Micro credit aims to generate employment and income to the poor and poverty reduction in the developing countries like India. This socio-economic impact of the micro credit may lead to increase in income and employment which will further lead to better access to education, health care and other basic amenities of life. The empowerment of women is another positive impact of micro finance programs that leads to higher social status and economic independence of women.

The above hypothesis was analyzed at 5% level of significance. The calculated chi-square values have been presented in the table, which is compared with the tabulated chi-square value at 5 percent level of significance for 4 d f i.e. 9.884.

The table above shows that out of 20 statements, the difference has been found insignificant in case of three statements i.e. increase in children enrollment to schools, increase child participation in the family business and rise in necessary expenditure on consumption. It shows that the majority of the respondents, irrespective of the sources of finance, agree that the use of micro

credit may lead to enrollments of more children to schools. On the negative side, it may lead to involvement of children in the family business to augment the family income. Also it may give rise to the unnecessary and unproductive expenditures in the family budget. However, the use of financial resources being in their own hands, they may use it productively or may waste it for demonstrations. It has nothing to do with what type of sources of finance they are using and that is why there was no significant difference in their perception with respect to these three statements. Similar finding was observed by Fenton et al. [12].

For the remaining 17 statements, the respondents have been found to be significantly different depending upon the sources of borrowings i.e. banks and the SHGs sources. Highly significant difference was found to be in the respondents' perception regarding reduction in the use of SHGs sources of finance, if banks are providing micro financial services at affordable terms. Similarly the significant difference was found in the respondents' perception with regards to the impact of microfinance services in the development of entrepreneurship skills, betterment of women,

improvement in market knowledge, spreading social awareness, improvement in income and consumption level and so on.

Thus, in all, the respondents who utilized finance from the SHGs network, perceive microfinance services more positively and believe that such services are helpful not only in meeting their small and basic financial needs but also to develop their business skills and personality traits in order to take them out of the poverty. On the other hand, the users of informal sources of finance perceived the micro financing efforts by the banks in a negative way [13,14]. In the sense, they still prefer tapping informal channels of finance and find difficulty in accessing the formal channels. So, the foremost need of the hour is to encourage the use of banking services among the rural poor to change their perception, positively, towards the microfinance services provided by the formal sources of finance, specifically, the banks. The bankers should organize awareness programs to let the poor people know what kind of schemes are available to provide financial support to them and their benefits thereof so that they feel motivated to utilize such services and enjoy their benefits. Similar finding was observed by Chowdhury et al. [15].

Table 1. Showing association between socio-economic statuses with the micro finance of respondents

S. N.	Indicator of Incensement in Socio-economic status	Chi- Square Values	Results	Ho Accepted/ Rejected
1.	Improvement in Income level	15.609**	Significant	Rejected
2.	Improvement in consumption level	13.237**	Significant	Rejected
3.	Increase in children enrollment to schools	7.831**	Insignificant	Accepted
4.	Improvement in employment level	16.348**	Significant	Rejected
5.	Poverty reduction	11.722**	Significant	Rejected
6.	Increases child labor in family business	8.335**	Insignificant	Accepted
7.	Increase in household assets	10.346**	Significant	Rejected
8.	Recognition in family	10.223**	Significant	Rejected
9.	Rise in unnecessary expenditures on consumption	5.159**	Insignificant	Accepted
10.	Confidence building and gaining self respect	26.511**	Significant	Rejected
11.	Increase in decision-making power	13.479**	Significant	Rejected
12.	Improves banking habits	13.105**	Significant	Rejected
13.	Improved communication skill	21.167**	Significant	Rejected
14.	Awareness of social issues	31.428**	Significant	Rejected
15.	It serves families instead of individuals	10.703**	Significant	Rejected
16.	Reduced dependence upon informal finance	42.250**	Significant	Rejected
17.	Developed entrepreneurship skills	32.723**	Significant	Rejected
18.	Better women empowerment	33.852**	Significant	Rejected
19.	Improves market knowledge	21.688**	Significant	Rejected
20.	Better utilization of already available resources	18.402**	Significant	Rejected

** Denotes five percent significance level

Further multiple regression analysis was applied to analyze the association between the improvement in overall socio-economic status of the beneficiaries of microfinance services and the factors influencing the socio-economic status. The factors scores of the factors extracted through the factor analysis were used as independent variables and it was found that all the five factors together explained 72.4 per cent of the variation in the overall socio-economic status of the microfinance beneficiaries being the dependent variable. Out of these five variables entrepreneurship development was contributing most significantly and positively to the socio-economic status of the respondents, whereas, unnecessary rise in consumption was having significantly negative contribution towards the same. This finding is in the line of the findings of Banerjee et al. [16]. That indicated the need to encourage entrepreneurs among the rural poor and discourage the use of finance for the unproductive and unnecessary expenditures.

To examine the perceptual differences among the respondents with regards to the impact of microfinance services on their livelihood status, the respondents were divided into two groups- one included the respondents availing microfinance from the SHGs and the other availing finance from the informal sources of finance. The difference was analyzed with the help of chi-square test. It was found that out of the 20 statements, for 17 statements, the difference was significant and for the remaining 3 it was insignificant. The SHGs/bank customers were found to have more positive view of microfinance services than the borrowers of informal finance. So it may be concluded with the note that there is a strong need to boost up the use of banking services among the rural poor by guiding them over the effective utilization of the microfinance services provided by the banks.

4. CONCLUSION

More than 66% of the rural population is served by microfinance institutions, giving them a wider breadth or reach in terms of serving huge populations. Thus, it can be said that microfinance has a larger distribution. When looking at the target demographic, it is clear that microfinance is assisting more people who are living over the poverty line. A question mark will be raised about the effectiveness and poverty-reducing impacts of microfinance in society if it is not providing services to the population below the poverty line. It was determined that

beneficiaries who received more than one loan from a microfinance institution did not necessarily fall into the low-income category. Since institutions don't reach the actual target population, the reach of microfinance is in question, and its influence and commitments to eliminate poverty seem weak. Population levels above poverty are not a reliable indicator of microfinance effectiveness and raise more concerns about its beneficial effects.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

REFERENCES

1. Attanasio O, Augsburg B, De Haas R, Fitzsimons E, Harmgart H. The impacts of microfinance: Evidence from joint-liability lending in Mongolia. *American Economic Journal: Applied Economics*. 2015;7(1):90-122.
2. Morduch J. The microfinance promise. *Journal of Economic Literature*. 1999; 37(4):1569-1614
3. Navajas S, Schreiner M, Meyer RL, Gonzalez-Vega C, Rodriguez-Meza J. Microcredit and the Poorest of the Poor: Theory and Evidence from Bolivia. *World development*. 2000;28(2):333-346.
4. Garikipati S. The impact of microfinance on poverty alleviation: Making sense of the evidence. *Development Finance*. 2017; 189-206. DOI:10.1057/978-1-137-58032-0_7
5. Hermes N, Lensink R. Microfinance: its impact, outreach, and sustainability, *World development*. 2011;39(6):875-881.
6. Hulme D. Impact assessment methodologies for microfinance: Theory, experience and better practice. *World development*. 2000;28(1):79-98.
7. Lønborg JH, Rasmussen OD. Can microfinance reach the poorest: evidence from a community managed microfinance intervention. *World Development*. 2014;64: 460-472.
8. Sebstad J, Chen G. Overview of studies on the impact of micro- enterprise credit. Washington, DC: Management Systems International; 1996.
9. Vanroose A, D'Espallier B. Do micro-finance institutions accomplish their mission? Evidence from the relationship between traditional financial sector

- development and microfinance institutions' outreach and performance, Applied Economics. 2013;45(15):1965–1982. Available:<https://doi.org/10.1080/00036846.2011.641932>
10. Rosenberg R. Does microcredit really help poor people? CGAP Focus Note, Number 59; 2010.
 11. Schreiner M. Aspects of outreach: A framework for discussion of the social benefits of microfinance, Journal of International Development. 2002;14(5):591–603.
 12. Fenton A, Paavola J, Tallontire A. The role of microfinance in household livelihood adaptation in Satkhira District, Southwest Bangladesh, World Development. 2017;92: 192-202.
 13. Banerjee A, Karlan D, Zinman J. Six randomized evaluations of microcredit: Introduction and further steps, American Economic Journal: Applied Economics. 2015;7(1):1-21.
 14. Chemin M. The benefits and costs of microfinance: evidence from Bangladesh, The Journal of Development Studies. 2008;44(4):463-484.
 15. Chowdhury MS, Ahmmed F, Hossain MI. Neoliberal Govern mentality, Public Microfinance and Poverty in Bangladesh: Who are the Actual Beneficiaries?, International Journal of Rural Management. 2019;15(1):23-48.
 16. Banerjee A, Duflo E, Goldberg N, Karlan D, Osei R, Parienté W, Udry C. A multifaceted program causes lasting progress for the very poor: Evidence from six countries. Science. 2019;348(6236): 1260799.

© 2023 Tiwari and Jahanara; This is an Open Access article distributed under the terms of the Creative Commons Attribution License (<http://creativecommons.org/licenses/by/4.0>), which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

Peer-review history:
The peer review history for this paper can be accessed here:
<https://www.sdiarticle5.com/review-history/89605>