

## Original Research Article

### A STUDY ON THE IMPACT OF MICROCREDIT ON SOCIO-ECONOMIC STATUS OF BENEFICIARIES

#### *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. The interpretation states microfinance is reaching to large number of poor household but not significantly to rural women below poverty line and the length of association with microfinance is low there are few numbers of cycles of loans and has no relationship with 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.*

**Keywords:** Financial Inclusion, Microfinance, Micro Finance Institutions (MFIs), Micro Credit, Outreach, Poverty, Self Help Groups (SHGs) etc.

#### 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."

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. 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

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market. 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. 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. 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.

#### **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.

#### **RESULTS AND DISCUSSION**

##### **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.

**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              |

**Comment [U4]:** Just measuring the association or correlation may not properly reveal the impact of the programme. There must have a methodological explanation.

**Comment [U5]:** The sign author used on the Chi-square value may not express it was insignificant result. So, author should check the results in such similar cases.

|     |   |          |             |          |
|-----|---|----------|-------------|----------|
| 20. | Better utilization of already available resources | 18.402** | Significant | Rejected |
|-----|---|----------|-------------|----------|

\*\* Denotes five percent significance level.

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. (2017)**

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. 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.*, (2019).**

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.*, (2019).** That indicated the need to encourage **entrepreneurships 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.

## Conclusion

Microfinance institutions are reaching to more **than 66 per cent of the rural population hence greater breadth or reach in terms of serving large numbers. Hence it can conclude**

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microfinance has a wider spread. When considering target population it is seen that microfinance is reaching to higher number to population above poverty line. When it is not serving population below poverty line, therefore a question mark on the efficiency and poverty reducing effects of microfinance in the society will be raised. Greater number of loan cycles are indicators of satisfaction and efficiency of microfinance but in the data it was found a very low no. of beneficiaries have repeated loans from microfinance so the association in terms of time duration is also low which is not a very positive indicators for outreach. It was concluded beneficiaries having more than one loan from microfinance institution did not necessarily belong to low-income category. Hence 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.

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**Comment [U12]:** References should be written as par the reference writing guideline of this journal.

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