



# Impact Of Microfinance On Rural Poor - A Select Study

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## INTRODUCTION

Microfinance as a mechanism for poverty alleviation is well recognized all over the world. If used properly it is an efficient and effective tool. In India still a significant proportion of the population lives under poverty. Somicrofinanceisaperfectmatchforaddressingthisproblem.Microfinanceisbasicallyfinancingforthepo orsothat they can engage themselves in various income generating activities and improve their social and economic status. Micro financing was introduced in the 1980s in India to help reduce poverty and provide women more economic independence. Microfinance has tremendous promise; however there are access problems in rural India. Microfinance, often called microcredit, is a banking service that extends credit to individuals and businesses with little or no income who would otherwise have no other way to access financial resources. To people who have problems gaining access to more conventional banking services, 'microfinance' serves as a welcome alternative. It's meant for those who are unemployed and/or living on a tight budget. Loans, bank accounts, and low-cost insurance are just some of the services that microfinance organizations provide. Microfinance has the potential to assist small businesses in developing countries like India prosper by providing greater financial stability, while the formal financial services sector is unable to meet the demands of the rural poor. While most microfinance institutions' primary function is to provide loans, many banks also offer micro insurance, savings accounts, and workshops on personal finance and company management. Microfinance's end goal is to help the poor achieve economic independence.

## CONCEPT OF MICRO FINANCE

Initiallymicrofinancetermwasassociatedwithonlythoseservicesthathadonlyoneaspecti.e.providingmic roloanstothosewholackedaccesstoformalfinancialserviceslikebanks.Overashortspanoftimemicrofinan ceevolvedtobemuchmorethanaloanprovider.Foranymicrofinancebeneficiariesitisawaytoenhancethe ireconomic status, social status and overall development. Microfinance helped specifically the rural poor in their journey towards self-sufficiency. Microfinance providers basically targets rural women

through their various models and it has shown positive results . So now a day's microfinance is an umbrella term that includes different financial services for its clients and for overall financial inclusion.

## **NEED OF MICRO FINANCE INTERVENTION ON SOCIO ECONOMIC CONDITIONS OF THE BENEFICIARIES**

Most people who are poor or have limited financial resources do not have enough money to conduct business with conventional financial institutions, microfinance services are provided to jobless or low-income people. Microfinance institutions enable individuals to take small business loans securely and in accordance with ethical lending principles. Despite the fact that microfinance institutions exist all around the globe, the bulk of them are located in poor countries such as Uganda, Indonesia, Serbia, and Honduras. Many microfinance organizations specialize in assisting women. Despite being denied access to financial services, individuals living on as little as Rs 200/- a day strive to save, borrow, get credit, or insurance, and make debt payments.

### **OBJECTIVES OF THE STUDY**

1. To know the present theoretical framework of Microfinance concept and importance.
2. To exhibit the impact of Microfinance intervention on socio economic conditions of the beneficiaries after the microfinance.

### **RESEARCH METHODOLOGY**

The data and information were collected through Questionnaire from the Households of the Khammam District of Telangana State, to understand the impact of micro finance intervention on socio economic conditions of beneficiaries. The data were collected from the secondary sources also like journals, research papers, reports, newspapers and websites. The study used non-probability random sample method.

### **REVIEW OF LITERATURE**

**Abdullah et al (2021)** A novel conceptual framework for investigating the impact of various microfinance services on families' socioeconomic performance will be developed utilizing moderated mediation analysis of many important components. To this end, a thorough literature review and focus group interviews with management of the microfinance institution, Amanah Ikhtiar Malaysia (AIM), were undertaken, and a novel research paradigm was devised.

**Lamma Eraqi and Tahar Tayachi (2021)** look into the aspect of micro-financing in Saudi Arabia and try and understand what role it can play in the overall development of the economy there. The research paper will focus mainly on the SMEs of Saudi Arabia Mainly new companies will be considered to identify the financial challenges faced by the entrepreneur in KSA. According to the survey it is

observed, microfinance plays a crucial role in creating a diversified and flexible economy with effective participation of private sector in the economic development of the nation.

**Amory Martin, Maryia Markhvida, Stephane Hallegatte and Brian Walsh (2020)** It is shown that a lockdown in the San Francisco Bay Area has real-world consequences because of unemployment insurance (UI) and government stimulus funds under the CARES Act. In the absence of social protection, the Bay Area's poverty rate would rise from 17.1% to 25.9% during a three-month period, with the lowest-income earners bearing the brunt of the increase.

**Cull, Robert; Morduch, Jonathan (2017)** People who rely on self-employment view microfinance as a tool to help them address credit markets and free up their productive potential. Since the 1990s, the microfinance industry has developed rapidly, opening the door for additional types of social entrepreneurship and social investment.

**Rana Muhammad Sohail Jafar et al (2016)** have briefly described the microfinance and its impacts on people and society. We have also explained the Grameen Bank Model, the main purpose of the article is to provide the awareness about the microfinance, and how it can be helpful in well-being of the society and poverty reduction.

**V. Ravi Kumar, P. Karthika and Dr. P. Karthikeyan (2015)** stated that the Microfinance Institutions (MFIs) provide a range of lending options for the provision of loans and savings services, with micro entrepreneurs making advantage of these offerings. Poor people will be better off financially if they have access to these services, according to the hypothesis. This will help them to better plan and enhance their livelihoods by accessing quality education, healthcare, and empowerment.

**Banerjee et al (2013)** using a randomized control evaluation method in Hyderabad India, observed that access to microfinance did not have any effect on average monthly expenditure per capita for the treatment group. Consumption in treatment areas was not different, and the average business was still not more profitable as compared to the control group.

**Okurut et al (2013)** in a study of 150 households in Kgatleng District in Botswana, also suggested that microfinance has a positive and significant effect on household welfare and gender empowerment.

**Ranjani (2012)** discusses the current turmoil related to microfinance in India and discusses the need for proper regulation from a multi-stakeholder perspective using a conceptual framework.

**Duvendack et al (2011)** contended that microfinance impact evaluations suffer from weak methodological approaches and data inadequacy, hence the reliability of impact estimates are adversely affected which leads to misconceptions about the actual impact of microfinance.

**E. M. Reji (2009)** came to the conclusion that the previous debate on the socio-economic effect of self-help organizations on its beneficiaries demonstrated some improvements in the members' standard of life.

Savings habits, greater credit availability, family income contribution, and the purchase of household assets are all indicators of the economic effect.

**F. R. Bebczuk and F. Haimovich (2007)** utilized information gathered from surveys of low-income families in many Latin American nations. They discovered that there was a statistically and economically significant rise in labour income when credit was used.

**Simanowitz and Brody (2004)** microfinance's importance to meeting the MDGs has been discussed at length (MDGs). Some argue that microfinance is essential to achieving the MDGs and creating a global financial system that serves the needs of the world's poor. Microfinance stands out among other forms of aid because of its ability to provide lasting, widespread social good.

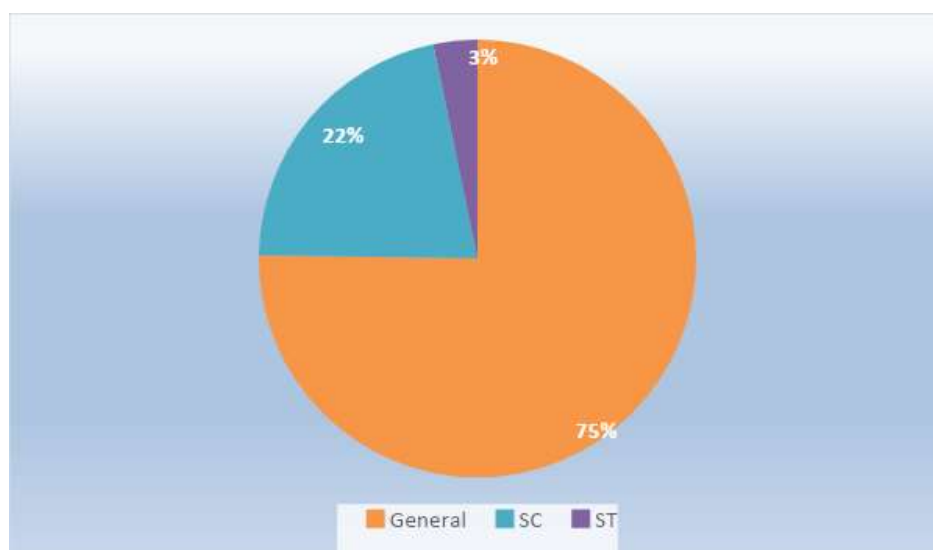
## DEMOGRAPHIC PROFILE OF BENEFICIARIES

### Social Category

The caste system is one of the unique features of Indian social structure. Microfinance programme is introduced mainly to serve the deprived sections of the society to achieve faster progress with their active involvement. Table-1 shows the data of the social category of the participants of the programme.

**Table-1: Social Category of Households**

Social Category	Division/Area			Total
	Khammam Municipal Corporation	Sathupalli	Madhira	
General	78.00%	74.00%	62.00%	75.25%
SC	22.00%	25.00%	38.00%	21.5%
ST		1%		3.25%



**Figure-1: Social Category of households**

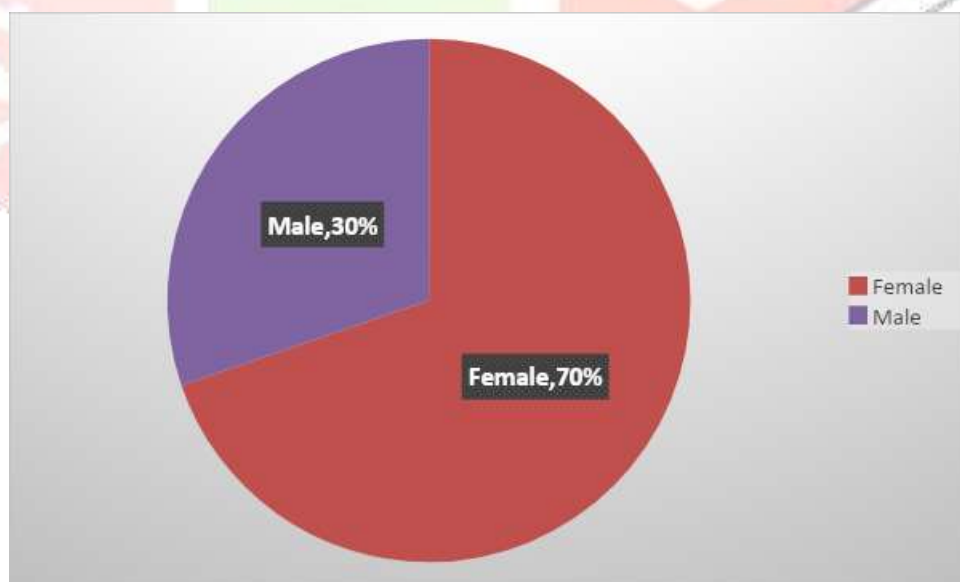
Figure-1 illustrates the percentages of the social category of the people who participated in the micro-finance programme. Indian society is divided into a number of social categories like SC, ST and General. Micro-finance programme is aimed specifically at improving the livelihood of poorer sections of the society. But the pie-chart depicts that a major portion of the members were from General Category 75%, the rest 22% were from SC category while only the least 3% were from ST. This shows that SC and ST category people are not actually actively participating.

### Gender ratio of Households

The gender ratio defines the participation ratio of male and female in the microfinance programme. Table-2 shows the sex-ratio of the participants of the programme.

**Table -2: Gender ratio**

Gender	Division/Area			Total
	Khammam Municipal Corporation	Sathupalli	Madhira	
Female	71.00%	62.00%	72.00%	69.75%
Male	29.00%	38.00%	0.28	30.25%



**Figure -2: Participation Ratio of Male and Female**

Figure 2 depicts the gender ratio of the participants in the micro- finance programme. It was found that a major proportion (70%) of the participants were females while the rest only 30% were males. This depicts that women were more actively involved in the programme as compared to men.

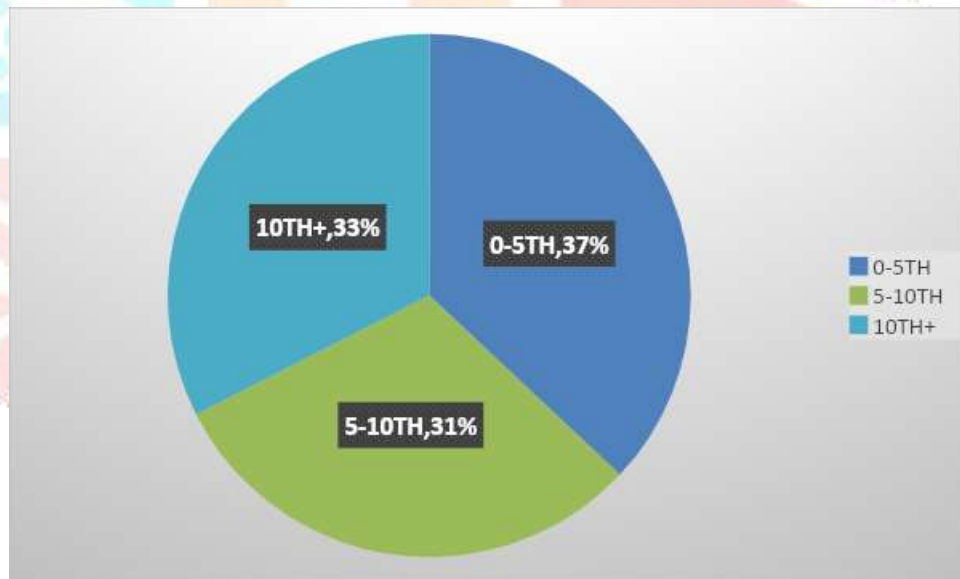


## Education of Members

Education is viewed as a powerful instrument for social change. It indicates the understanding and willingness for change in the attitude of people. Table-3 shows the literacy level of the participants of the programme.

**Table -3: Distribution of Households according to Education**

Education	Division/Area			Total
	Khammam Municipal Corporation	Sathupalli	Madhira	
0-5th	75.00%	28.00%	2.00%	37.0%
5-10th	12.00%	40.00%	27.00%	30.5%
10th+	13.00%	32.00%	71.00%	32.5%



**Figure -3: Education of members**

Figure 3 illustrates the education level of the participants of the programme. The pie chart depicts that 37 percent of the members are illiterate or otherwise only attended the school till primary as their parents could not afford to send them school. Other 31 percent of the respondents studied above primary pursued the school education up to secondary only. Rest 32 percent of the respondents gained the education above secondary.

## Karta of family

Karta means the person who has the power of making decision in the households. Table-4 shows the distribution of the household on the basis of Karta. The women-headed family indicates that the women have importance in the family and can take decisions on behalf of family.

**Table-4: Distribution of Households according to Karta of family**

Karta of family	Division/Area			Total
	Khammam Municipal Corporation	Sathupalli	Madhira	
Male	94.00%	55.00%	99.00%	83.5%
Female	6.00%	45.00%	1.00%	16.5%

**Figure-4: Distribution of household on the basis of Karta**

Figure 4 illustrates the distribution using pie-chart. The pie-chart depicts that a major 83% of the participants were males who were Karta of the household means they have the power of decision making in the family rest only 17% of households had karta as women. Only in Sathupalli division the ratio is large among all four divisions.

## IMPACT OF MICROFINANCE ON ECONOMIC CONDITIONS AND LIVING STATUS: Impact of Microfinance on Income, Employment and Living Status

The impact of micro-finance on income, employment and living status of beneficiaries was asked in more than one form and region wise results have been presented in Table -5.

**Table -5: Impact of Microfinance on Income, Employment Generation and Living Status**

Variable	Khammam Municipal Corporation	Sathupalli	Madhira	F-ratio
Income				
Increased	81.00	78.00	76.00	0.68
Constant	16.00	18.00	20.00	
Decreased	3.00	4.00	4.00	
Average	0.78	0.74	0.72	

Employment				
Increased	79.00	80.00	78.00	0.53
Constant	21.00	20.00	22.00	
Decreased	0.00	0.00	0.00	
Average	0.79	0.80	0.78	
Living Status				
Better	77.00	74.00	71.00	0.74
Same	23.00	26.00	29.00	
Worse	0.00	0.00	0.00	
Average	0.77	0.74	0.71	

Survey participants were asked to rate the degree to which their income and/or employment had improved, remained the same, or decreased as a result of receiving micro-loans. The values of 1, 0, and -1 were given to these characteristics. The F-ratio was used to compare the weighted mean scores from the three areas. This data is shown in Table 5. The table shows that among respondents in Khammam municipality, Sathupalli, and Madhira, 81%, 78%, and 76% respectively reported an increase in income as a result of participating in MFIs. Overall, the income of MFI recipients has grown after receiving support from MFIs, with the mean income score coming in at 0.78 in the Khammam municipality, 0.74 in the Sathupalli, and 0.72 in the Madhira divisions. Since the F-ratio was 0.68, it was clear that there was no discernible difference in the income distribution across the three areas analysed.

Table 5 also reveals that 80%, 78%, and 76% of respondents in Khammam municipality, Sathupalli, and Madhira said their employment had increased after joining MFIs, with the mean score of employment coming in at 0.79 in the Khammam municipal area, 0.80 in Sathupalli, and 0.78 in Madhira. The computed F-ratio of 0.53 indicated that there was little to no difference in the regional employment variance across the three areas analysed. The respondents were given the option to rate the effect of micro-finance on their standard of life on a scale from 'better' to 'same' to 'worse.' Weights of 1, 0, and -1 were given to these characteristics. We used the F-ratio to analyze the obtained weighted mean scores and find significant differences between the three areas. Table 5 displays the findings.

Seventy-seven percent, seventy-four percent, and seventy-one percent of respondents in Khammam municipal area, Sathupalli, and Madhira said their living status improved after joining MFIs, while MFIs has improved as measured by the mean score of 0.77 in the Khammam municipal, 0.74 in Sathupalli, and 0.71 in Madhira. The F-ratio of 0.74 indicates that the dispersion of wealth was similar in all three areas.



## CONCLUSION AND SUGGESTIONS

Microfinance sector as a whole along with all its models are increasingly showing growth over the study. Microfinance is basically a tool for solving many difficult problems that were there for a very long period of time. Microfinance aims to solve one of the most important problems i.e. alleviating poverty and helping the poor uplifting themselves. The study reveals that a major portion of the members were from General Category 75%, This shows that SC and ST category people are not actually actively participating, major proportion (70%) of the participants were females, this depicts that women were more actively involved in the programme as compared to men, lowest level of education is highest in Khammam Municipal Corporation among all the divisions. The percentage of members have qualification above 10th standard is highest in Madhira division. The major 83% of the participants were males who were Karta of the household. The study, it was clear that there was no discernible difference in the income distribution across the three areas analysed, there was little to no difference in the regional employment variance across the three areas analysed. The dispersion of wealth was similar in all three areas. Microfinance has been regarded as an efficient and effective tool for overall financial inclusion and socio-economic development. In this regard the Government must take necessary steps for widespread acceptance of microfinance in the country and with proper awareness microfinance services will be available for more needy and poor rural individual and it will be able to help them become financially independent and self-sufficient.

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