

IMPACT OF MICROFINANCE ON LIVING STANDARD OF BELOW POVERTY LINE HOUSEHOLDS

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ABSTRACT

In recent years, public policy makers globally have favoured the area of microfinance. The idea of microfinance was also thoroughly adopted in India. Nearly every state in India uses the Self-Help Group (SHG) model to implement Microfinance schemes. A SHG is a homogenous community of 10 to 20 rural poor who work together to deal with the financial challenges they has. They are familiar. They pool their investments into a mutual fund named the Party corpus, which provides their participants with small interest loans. In addition to these internal loans, the SHGs often get direct access to external credit from banks or services such as Self-Help Group Bank Linkage, or from government departments and official agencies that pay loans through various government systems. These loans are primarily used to generate revenue.

1.1 INTRODUCTION

Microfinance in any country is essential software to empower individuals. Since the building nations face a capital shortage, depending on microfinance is unavoidable. Because some one-third citizens in developed countries nonetheless live below the poverty line, micro finance plays a predominant role in their financial ability. In accordance with the Tendulkar Committee, a specialist committee nominated by the Indian Poverty Planning Commission in 2004-05 [Sridhar 2009] for approximately 37 percent of the population was below the nationwide poverty line and 21.9 percent (2013-14) of citizens were below the poverty line, in line with the Indian financial survey. They have little access to food, wellness and schooling. They have no house, no work and no money. They remain below the poverty level, thus. The Micro Finance has a big role to play in empowering them with jobs and earnings.

Microfinance has already influenced optimistically the excellent lives of thousands of poor people by providing higher loan admission, financial savings, protection, relocation, sending and various other inaccessible monetary offers. Micro-finance is a limited and wide-ranging financial programme provided to the vulnerable by financial institutions. Financial benefits, credit, protection, lease and cash transfer, fairness and much more will be used in these financial services. This means that all forms of financial resources available to clients are limited and clients are weak to satisfy usual financial requirements, life loads, economic opportunities, and new markets.



Microfinance is generally linked to action to alleviate poverty; allocation of income through a larger population; redistribution of energy buying where a large majority of men and women do not have enough procurement energy to participate in a commercial economy. This is linked to a limited sum of savings and small loans, flexibility, versatile, sensitive and receptive accessibility of small loans. It is a spring board for rising microenterprises and gender growth to ensure prompt, unbroken financing that cannot have collateral in a non-bureaucratic manner. A minimum retail loan for around 5000 rural people or any thousand households may be a typical one. Casual lending, which is the role of the money lender in the rural lending system, was generally above the 36 6% of the rural lending. 2005 was introduced as "World Microfinance Year," by the United Nations. And it has been stated that microfinance for the Millennium development objectives for the elimination of rural poverty is an essential part of the global initiative.

1.1.1 Principles of microfinance

Over the years, microfinance has become the leading development strategy to reduce poverty and empower "poor people," particularly women, embraced by most developed countries. Basic universal standards would have to guide one of these improvement approaches. Eleven main microfinance standards have been established by the CGAP, a consortium of 31 public and exclusive development organizations, who work together to expand entry into monetary services for the poor. This was accepted by the 31 member donors of CGAP and further recommended at the G8 summit held on 10 June 2004 by the community of eight presidents. Sea Island, Georgia, United States of America (CGAP, 2004). These concepts have been transformed into realistic organizational management for the microfinance workers and businesses.

1.1.2 Evolution of microfinance

As it has emerged, India's rural credit method is a process of transformation and interference. The general objectives of the policy response were: (a) institutionalize the credit, (b) expand its reach and (c) provide timely and sufficient funding for the rural community at a fair curiosity fee. Institutional creativity was an ongoing process of changes based on practise (Rangarajan, 2007). Considering that the early country's broad plans, India's neutral management stressed the link between improved financial sector access and poverty reduction (Jonathan and Stuart, 2003). The early strategy gave state-owned banks the leading role, who were responsible for loosening normal illicit lending by means of some cheap loans (Reddy, 1999). In addition, raising loans for the negative have always been at the heart of Indian planning for poverty reduction.

1.2 LITERATURE REVIEW

Noreen (2011) tried to examine the various facets of women's empowerment and to analyse the function of microfinance in enhancing domestic decision-making in relation to other social determinants. The study was performed in Pakistan's Bahawalpur district. The study generated an index to assess empowerment with five measures related to child welfare, schooling, the collection of children's spouses, acquisitions of commodities and the decision on the use of credit. There were at the period five microfinance organizations. Randomly, the NRSP and Khushhali Bank have been chosen.



In order to study the effect of microfinance investment in the promotion of the empowerment of women in rural India, **Arors and Meenu (2011)** carried out empirical analysis. The research took three distributors: Amritsar, Jalandhar and Ludhiana in Uttar Pradesh. The objective of this analysis was to analyse the usage and access to their satisfaction of microfinance solutions by consumers. Two blocks have been chosen from each district. There have been adequate random samples and 110 women from chosen blocks polled. The study showed that the maximum amount of respondents were using savings account and postal savings was a good habit of saving between women, but several challenges were posed in a manner that neglected to become conscious of the microfinance services provided by the banks. Wide proportions of rural women choose informal sources of finance because of their frustration with many facilities including the maintenance of the 0-balance, security criteria, and cumbersomeness of administrative measures, loan use controls and challenging repayment terms.

Bansal and Bansal (2012) addressed the secret to successful poverty mitigation policy for microfinance. The research examined numerous schemes implemented by the Government of India (GOI), such as NABARD's micro-credit systems for agriculture and SIDBI for industry and business services. This research showed the core characteristics of the Government of India's microfinance programme. The study indicated that GOI supported the arrangement for micro credit for poorer MFI/NGOs such as SIDBI. The study has concluded that microcredit access and productivity will allow poor people to ease their customer needs, strengthen risk control, develop their savings, increase their revenue potential and profit from enhanced quality of life. The study concludes: Moreover, the report also noted that microfinance programmes can also lead to better distribution of resources, business promotion and better technological acceptance.

In his doctoral thesis, **Bansal (2010)** is doing a prominent work on the effect of microfinance on poverty, jobs and empowerment of women. In the rural areas of Uttar Pradesh, study was conducted. A distinction was made between the applicant and non-participants in the programme. The research analysed SHG community participants who made use of NABARD loans. While others who have not used the loan are deemed non-participants. The thesis depends mainly on basic evidence. The data were obtained by questionnaire from the sector. Multistage sampling methods were integrated into the research. The survey included ninety students and ninety non-partners. The thesis utilised several statistical techniques such as T-test, F-test, Chi-square test, and analyses of multiple regressions. Different poverty measures were also included in the report. The research often experimented with the Lorenz curve and Gini wealth gap analysis. The analysis showed that the microfinance initiative successfully increased participants' person and household incomes. The report further highlighted the reduction of wage disparities in enrollment in the microfinance scheme. The research also explained that the microfinance programme, physically, emotionally, mentally and politically, mobilised women.

Aruna and Jyothirmayi (2011) have investigated a study that measures the function of microfinance in improving women's empowerment as a financial intermediary. The connection between SHG-bank engagement and women's empowerment was examined. The research was main and took place in Hyderabad. In the report, Hyderabad Micro State beneficiaries were included. The report included 300 people in the pool of 150 self-help women in a microfinance loan and 150 women in the self-help community who did not benefit from any microfinance loans. The survey included 500 members. The research also measured the effects of microfinance

across the Women's Empowerment Index. The analysis showed that the self-help group's attendance raised the participant's income level. The research shown that the economic ratings of 150 non-participants relative to participants were lower. In order to boost the situation financially, the microfinance loans needed to be extended to more beneficiaries. This indicates, in terms of wages, properties and economical shifts that lent participants have greater economic prosperity. The research indicated that the availability and adequate use of micro financing loans increased the economical situation of the self-help community participants.

1.3 RESEARCH METHODOLOGY

Data from the field was closely edited and analyzed. The details were summarized using simple average and percentage techniques. Tables are used to show the findings of the analysis. A variety of methodological methods are implemented to figure out the effects of the microfinance project, for example, a test t, Chi-Square checking and an analyzing of the associations, numerous regression tests, indices of poverty measurements, Gini coefficient etc. The use of numerous mathematical methods is utilizing applications such as Microsoft-Excel and SPSS 11.0.0.

1.4 DATA ANALYSIS

NATURE AND EXTENT OF ECONOMIC SHOCKS FACED BY RESPONDENTS

Table 1.1:
Number of respondents faced Economic shocks

District	Number of Participants and Non-Participants	Number of Respondents who Faced Economic Shock		Average Amount Spent to cope up (in Rs.)	
		Participants	Non-Participants	Participants	Non-Participants
Agra	90	34	40	1,17,882	1,01,175
Ghaziabad	74	37	35	73,270	60,314
Meerut	26	7	8	25,000	74,500

Uttar Pradesh	190	78	83	88,385	81,373

Table 1.1 highlights the number of households participating and non-participating who encountered one or another economic shock in the two years preceding the period the investigation took place. 41% of participants and 44% of non-participants were considered to have been confronted with an economic shock. The table displays the average amount expended on these emergencies by the respondent households. It has been observed that the average sum invested by members is Rs. 88,385, which is Rs. 81,373 for Uttar Pradesh for non-participants.

Table 1.2: sources of finance to cope up economic shocks

Sources of Finance	Participants				Non-participants			
	AGRA	Ghaziabad	Meerut	U.P	AGRA	Ghaziabad	Meerut	U.P
Money- lenders	15	2	4	21	19	18	5	42
Friends Relatives	5	9	1	15	15	9	1	25
Own Savings	10	9	1	20	2	1	-	3
Self-help groups	4	13	1	18	-	-	-	-
Cooperative	-	3	-	3	4	7	1	12



Society								
Banks	-	1	-	1	-	-	1	1
Total	34	37	7	78	40	35	8	83

The rural poor must borrow money to satisfy their economic demands resulting from different household needs and problems. The participants tried to find out the different outlets from which they borrowed capital to deal with these different economic shocks. Table 1.3 shows these various sources of financing. It has been observed that over 50% of non-members and just 27% of programme participants borrow money from lenders at exorbitant interest rates of between 36% and 120% per year. 23% of participants borrow from the SHGs to fulfil their requirements. However, the non-participants are not permitted to do anything. Studies conducted by Singh (2001), Raghavendra (2001) and Kabeer & Noponen (2005) have also shown that the fast and rapid supply of microfinance credit decreases participants' reliance on the lenders.

An SHG scheme not only offers loans, it also creates a saving habit for participants in the system. It has been observed that 26% of participants utilise their own savings to counter economic shocks, compared with just 4% of non-participants. In his research in the Bangladesh Microfinance Project, Hoque (2008) reported that the programme participants are better able than non-participants to cope with the financial crisis through their revenue and savings. The table above shows that 90% of the participants and 30% of non-participants arrange money from acquaintances and family members. In comparison, each participant and non-participant only borrows funds directly from the banks by one quarter. However, the village co-operating companies borrow capital from 4% of the participants and 14% of the non-participants.

1.5 IMPACT OF MICROFINANCE ON LIVING STANDARD OF BELOW POVERTY LINE HOUSEHOLDS

The primary focus population of the microfinance system is the households below the poverty line (BPL). The effect of this initiative on the BPL households was then measured individually. BPL households are chosen by an absolute poverty line among the survey households. For this reason the poverty rate of Rs 2.500 per household per month is used to classify the poor under the Atta-Dal scheme as established by the government of Uttar Pradesh. The effect of micro financing on prevalence of poverty, deep poverty and seriousness of poverty has been measured on the basis of this poverty line.

Table 1.3: Micro finance and incidence of poverty

District	Number of Participants and Non-Participants	Number of BPL Households		Reduction in BPL Households		
		Participants		Non-Participants	Pre-SHG and Post-SHG Analysis	Participants and Non-Participants Analysis
		Pre-SHG	Post-SHG			
Agra	90	16	9	16	7	7
Ghaziabad	74	16	8	18	8	10
Meerut	26	5	-	4	5	4
Uttar Pradesh	190	37	17	38	20	21

The HCI is the most widely employed approach to estimate poverty incidence. It tests the bad percentage of the population. This is the proportion of the population whose revenue is lower than the utter poverty line of Rs. 2500 a month in the present report. The status of participant and non-participating families BPL is given in Table 5.13. Table 1.3. A table look shows that before joining the micro financial programme, all members were not BPL. Any of the SHG's chosen participants could be disadvantaged but not necessarily under poverty line to support the microfinance programme. The survey analysis indicates that in the Agra, Ghaziabad and Meerut districts, only

18, 22 and 19 per cent are BPL families supported with microfinance in the region studied. Therefore, since this initiative is focused, government implementation organisations also include the general disadvantaged. In addition, BPL families are not required to be included in the programme. Another explanation that fewer disadvantaged citizens are included could be to prevent the community loss in the cases of failure by the severe poor to repay bank loans. The failure to commit to monthly savings is another obstacle in the appointment of extremely disadvantaged individuals as Community members. In a Navajase et al. report (2000), MFIs was shown to favour citizens above the poverty line.

The pre- and post-SHG review by programme students reveals that, before joining the microfinance system, 19% of the participating families were BPLs in Uttar Pradesh, but that after accessing the benefits of the project they strengthened their financial status and the number of BPL households was reduced to 9%. Thus, the number of BPL households has fallen on average by 54%. 44% of participating GPL households from the districts of Agra and Ghaziabad reached the poverty line after their initiative, compared with 100% for the districts of Meerut.

The table compares BPL sample households to households outside the participant. 20% of non-participants and just 9% of their households were BPL. It has been created. The BPL families of non-participants were more than 44, 56 and 100% respectively in the districts of Agra, Ghaziabad and Meerut than the BPL families of the participants. It is possible to say that the microfinance project, among the programme members, has led to a reduction in poverty rate.

The effect of the micro financing scheme has been tried separately for samples from households below the poverty line (BPL) and above the poverty line (APL). Increased household revenues are shown in the incentives offered under the scheme.

As a consequence, several BPL households have crossed the poverty line and moved into APL. Some programme members already became APL, and their household earnings rose further before entering the programme. In this way, participating in the scheme culminated in improvements to the beneficiaries' poverty condition.

1.6 IMPACT OF GROUP MATURITY ON INCOME

Self-help organizations can obtain fresh grants after the existing loans have been repaid successfully. As the community grows older, its participants are also having more loans for their output assets growth and acquisition. The sophistication of a population therefore plays a significant role in the the profits of the participants of the group. The SHGs was grouped into three groups depending on the Group age in order to calculate the effect of the maturity of the sample on participants' incomes. These three grades are called young (under the age of 3) intermediate (3 to 6) and adult (3 to 6) classes (more than 6 years old). Table 1.3 describes the revenue received according to Party maturity by the participants in the districts of Agra, Ghaziabad and Meerut.

For participants in the mature population led by middle-age and youth participants, the overall rise in income in post-SHG relative to pre-SHG was the largest. The income for young, mid and mature classes is applied to pre-SHGs for the district of Agrà, Rs. 523, 936, and 1,642 per month; Rs. 631, 867 or 1,842 for the district of Ghaziabad. The income for Meerut members is raised to Rs. 879,

1,063 and 1,500 per week. The table further reveals that the average rise in income from programme involvement of young community members in Uttar Pradesh is Rs. 625 per month. The addition of revenue is seen as Rs. 924 per month for middle-aged members of the community and as Rs. 1.745 per month for the mature members of the group. Thus, as the group becomes older, the wage increase increases.

The analysis of differentiation techniques is applied to assess for Uttar Pradesh the variations in the mean post-SHG income of participants over the individual population ages. The findings demonstrate that the importance of F is important at 1%. This is attributed in turn to the fact that members of mature communities make use of more and more loans to produce revenue. The impact evaluation studies by Banu et al. (2001), MYRADA (2002) and Chowdhury et al. derive similar conclusions of the beneficial impact of the group competence on the income of programme participants (2005).

Table 1.4 : Value of Poverty Gap Index

District	Value of Poverty Gap Index			Reduction in Poverty Gap Index	
	Participants		Non- participants	Pre- and	Participants
	Pre- SHG	Post- SHG		Post-SHG Analysis	Non-participants Analysis
Agra	0.038	0.025	0.036	0.013	0.011
Ghaziabad	0.046	0.023	0.050	0.023	0.027
Meerut	0.017	-	0.051	0.017	0.051
Uttar Pradesh	0.040	0.021	0.044	0.019	0.023

Source: Own calculation from field survey data2018.

1.7 CONCLUSION

The key aim of the research was to assess the effect of the initiative on poverty reduction, work growth and women empowerment. The thesis was focused on the assumptions that the microfinance programme creates employment, decreases vulnerability and empowers the female programme participants. In addition, it is assumed that severely disadvantaged individuals get more service incentives than the moderate poor; and old SHG participants are better off than the SHG members.

The participants are contrasted with the non-participants to evaluate the effects of the microfinance project. These individuals are called participants who are representatives of SHGs and who make use of the bank loans at the time of the field survey for more than two years. Although citizens who are representatives of the microfinance programme but have a new entrance in the SHG are called non-participants. Until field survey, these non-participants did not take advantage of bank loans.

To assess shifts in wages, two separate approaches were used. In the first way, participants' earnings are contrasted with the earnings of same participants after their accession to the Microfinance programme (post-SHG) (pre-SHG). In the second process, participants' incomes are matched with those of the non-participants since entering the microfinance project. It has been found that the revenues of the participants have risen 2.5 fold since joining the microfinance project. The participants total individual revenue for the post-SHG month is Rs. 1.725 relative to Rs. 718 for the pre-SHG month. A contrast between participants and non-participants reveals that the participants' average income is 2.7 times more than the non-participants' average income. Non-participants have an average monthly salary of only Rs. 638 compared with Rs. 1.725 a month for participants. This allowed its participants to raise their contribution to household income through the microfinance scheme. The total earnings of the Uttar Pradesh participating households is Rs. 5,905 in pre-SHG circumstances a month and Rs. 6,912 in post-SHG months. This indicates a monthly improvement of Rs.1007. Thus, household income in Uttar Pradesh increased by 17 percent following the entry into the microfinance programme. The distinction also shows that participating households' revenue is 18 percent greater than non-participating households' revenue. Therefore, both the person and the household income of the programme participants were increased by the microfinance programme.

Women's liberation is a process that allows women to question their submissive social role or position. It is a progressive mechanism that is multi-dimensional. The microfinance programme focuses on development people, which is a special aspect. This service includes more than 90% of the women's consumers. The children in the scheme, to gain individual money, get financial support for setting up tasks, which also allows them to return to their homes. This economic freedom increases self-respect and self-confidence for woman participants in the project. The emancipation of women increases their status and skills so that they can survive peacefully. In this report, 21 women's empowerment indicators were taken into account. These metrics assess physical, socio-cultural and family; political; and empowerment for education and training.

As a matter of fact, the microfinance programme not only establishes economic, social and political empowerment of its members, but also its overall identity. The Community exercises



contribute to simple skills such as writing their names, reading numbers, carrying out fundamental arithmetic, keeping financial activity logs, filling out bank forms, knowing passbook entries etc. The research demonstrates substantial variations in the production of these essential skills between participants and non-participants. 26% of participants and 34% of non participants have been shown to be illiterate. The research indicates that 17% of illiterate and just 13% of non-participants can read and write their names. The sample shows that So, it may be seen that even the participants of the analphabet software can read and write better than the non-participants of the analphabet. The survey findings indicate that 72% of the participants do not experience any problems in calculating relative to 54% of them. The financial transactions are recorded regularly by threety percent of participants and six percent of non-participants. In contrast with 25% of non-participants, 49% of the participants had little trouble conducting their simple banking tasks. In comparison, 28% of participants and 40% of non-participants are unwilling to meet banking obligations.

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