

# Impact of Microfinance on Rural Development: With Special Reference to Mathura, UP

**Aviraj Chauhan**

Research Scholar, GLA University, Mathura. aviraj.chauhan\_phdmgm20@gla.ac.in

**Dr. Om Prakash Agrawal**

Assistant Professor, GLA University, Mathura. omprakash.agrawal@gla.ac.in

## **Abstract:**

This research is an attempt to examine the impact of microfinance on rural development in Uttar Pradesh. Microfinance is a policy through which financial services are provided to small-scale industries. It is a provision of financial services to poor, low-income groups and micro-enterprises. This facility is provided to those enterprises which do not have any collateral or pledge for a loan. This study was also carried out to investigate the impact of microfinance schemes on poverty reduction, employment generation, women empowerment, and infrastructural facilities. Primary data has been collected to examine the impact through the structural questionnaire. Responses have been collected from the people of the Mathura district. Results of our study indicated a significant impact of microfinance on rural development in terms of income, savings, employment, and economic empowerment in the Mathura district.

**Keywords:** Microfinance, Micro-Enterprises, Economic Empowerment

## **Introduction:**

Microfinance refers to the scheme of financial and non-financial services to upgrade skills, entrepreneurship, and skill development to overcome poverty. It is also a banking service that is provided to those who do not have any means of financial services such as low-income groups and the unemployed. Microfinance works as a measure of development for women and families to overcome poverty. Microfinance has an impact in terms of macro because this helping hand not only uplifts an individual but also his or her family from poverty. Microfinance is regarded as a financial service provided to the small-scale industries including enterprises working in agriculture, fishing, wage earner, and other individual groups working in developing countries in both rural and urban areas (Robinson 1996). Microfinance does not include credit and saving but also other kinds of services are provided such as the issue of cheques, drafts, and guarantees (Jindal. K and Sharma. K. C). microfinance provides and develops sustainable livelihood opportunities in rural areas especially in low-income states of the country by helping them in developing entrepreneurial skills and employability. Microfinance is not a new concept; it is an old concept that exists in society. This can be found by different names in every country and society but informal sector. For the last three decades, microfinance has contributed to developing countries such as India to overcome poverty. It has also led women in the rural area to become self-independent by providing various schemes (Dileepa and Namratha, 2020). Schemes and services of microfinance include lending, insurance, skill development, and education (Ledgerwood, 1999). Microfinance has a component of microcredit which is used for a defined period, repayments are made on a weekly or monthly basis. Microfinance institutes focus on those people who lack access to financial services (Lendwithcare, 2018). Microfinance institutions provide two kinds of services namely, the fund for income generation and funds for small enterprises. Providers of microfinance are NGOs (non-governmental organizations) that help people shift from poverty. Microfinance institutes (MFIs) focus on poor and female borrowers. Microcredit has been criticized due to the high rate of interest on the borrowings. MFIs are now enjoying high returns than conventional commercial banks (Ashta, 2009). Various people have questioned the working of MFIs due to unfair practices of institutions (Hudon & Ashta, 2013). To boost the economy of any country microfinance can be used but the correlation

between microfinance and poverty must be used with caution due to the complexity of the issue of poverty (Bansal and Bansal, 2012). It has been used as a major tool for poverty reduction in the last two decades and around 60 countries came out of poverty by using the measures of microfinance (Bateman and Chang, 2010).

The remaining part of the study includes a brief review of the literature followed by a hypothesis, the third section of the study exhibits the methodology adopted analysis, the fourth section of the study show analysis and interpretation and the last part conclude the study.

### **Review of literature:**

As microfinance is concerned with the financial services provided to the low-income group, small industries, and poor people helped to overcome the problem of unavailability of a fund to them to lack of access to these financial services. Our study aimed to examine the impact of microfinance schemes on rural development with special reference to the Mathura district in Uttar Pradesh. A brief review of the literature is as follows:

Kabeer (2005) in his study examined the impact of microfinance schemes on poverty reduction and empowerment of women in South Asia. He concluded that microfinance is only beneficial for the poor individual but not for extremely poor individuals. It has brought a drastic change in the life of women and micro industries. The research of Onyum and Shem (2005) has examined the various myth related to microfinance and found that microfinance is very beneficial to everyone living in developing countries. they concluded that microfinance can be used as a tool for poverty eradication and the government must re-examine its policy related with. Sujatha (2006) suggested that all the policies related to banking services must be redesigned as per the requirement of the rural population to address their financial problems. She has focused his study to increase the access to financial services for poor and small enterprises to avail all kinds of benefits provided by the government. According to the study of. Karnani (2007) microfinance does not play any role in poverty reduction but helps the people in empowerment, help the people in social awareness, and understanding of political issues. According to the study generation of employment and an increase in productivity is only the solution to poverty reduction in rural areas. Khandelwal (2007) concluded that microfinance schemes provide benefits to the poor but not to the extremely poor. According to him, poverty reduction can also be done with the help of Gramin Bank, and Cooperative Societies in rural areas. Jegede et.al. (2011) have applied various statistical tools such as the Chi-square test and t-test to investigate the impact of microfinance on various groups of people. They found that there is a difference in the kind of people who are using microfinance schemes and those who are not aware of these schemes. They said that poverty reduction is only possible by using MFIs but the authorities must focus on the outreach of these schemes to the poor. Quraissy et al. (2017) concluded in their study that microfinance helps people in socio-economic development by helping hand to poor and low-income groups of society. According to the study by Das, (2021) microfinance not only help in the reduction of poverty but is also a very important tool for empowerment, it enables people especially women to get a loan for their immediate requirement of fund. Microfinance schemes are not meant for providing financial services to the poor but also to help people start their businesses by providing them with skills and knowledge regarding entrepreneurship (Faridi et al., 2022).

The above review of previous studies has focused on microfinance as a very important tool for poverty reduction and empowerment which help the people not only in overcoming poverty but also provides access to all the financial services. Based on the above review of literature following hypothesis can be formed:

### ***Hypothesis***

HO1: Microfinance does not influence the income of people living in the Mathura district significantly.

HO2: Microfinance does not influence the savings of people living in the Mathura district significantly.

HO3: Microfinance does not have an impact on the employment generation of people living in the Mathura district significantly.

HO4: Microfinance does not have an impact on the economic empowerment of people living in the Mathura district significantly.

### Research Methodology:

We have used two kinds of data sets namely, primary data and secondary data. Secondary data is a kind of data that has to be collected from already published information. We have collected secondary data from various books, articles, magazines, and Journals. Primary data has been collected from the structured questionnaire. The questionnaire has been circulated among the selected group of people living in the Mathura district. Liker's five-point scale has been used and respondents are asked to tick the relevant agree and disagree statements. Data has been collected from all blocks of Mathura District. A total of 625 respondents were asked to give their opinion regarding microfinance schemes. Responses are collected through a convenient sampling method. All the villages in Mathura which are easily reachable are selected for the study. Major variable includes Income, Savings, Employment, and economic empowerment are selected to check the impact of microfinance on them.

### Data Analysis and Interpretation:

Below table 1 show the age of respondents in the Mathura district. Out of 625 respondents, 265 people lie in the first age group of 26-35, 217 respondents were in the age group of 36-45 and the rest belongs to the third age group. The below table also documents the marital status of respondents. 398 people are married while 201 are unmarried and 26 are a widow. The educational status is also very important to check the validity of responses. 52 people were illiterate, 95 took education up to Vth, 224 had to learn up to VIII and 254 people know up to X.

**Table 1 Age, Marital Status, and Educational Status**

Age of Respondents (in Years)		Marital Status		Educational Status	
Age Group	Responses	Marital Status	Responses	Educational Level	Responses
26-35	265	Married	398	Illiterate	52
36-45	217	Unmarried	201	Up to V	95
Above 45	143	Widow	26	Up to VIII	224
				Up to X	254
<b>Total</b>	<b>625</b>	<b>Total</b>	<b>625</b>	<b>Total</b>	<b>625</b>

*(Source: Author's Compilation)*

Below table 2 shows the source of income and condition of the house of the respondents. 321 people receive their income from cultivation, 174 people receive their income from wages, 74 people are involved in business activities and rest are doing another kind of work such as commission agent, salaried, etc. 54 people have kucha house, 328 pakka house and rest have semi-pakka house in Mathura district.

**Table 2. Source of Income and Condition of House**

Source of Income	Number	Condition of the House	Number
Cultivation	321	Kucha	54
Labour	174	Pakka	328
Business	74	Semi-Pakka	243
Others	56		

<b>Total</b>	<b>625</b>	<b>Total</b>	<b>625</b>
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*(Source: Author's Compilation)*

Below table 3 show the test of the reliability of all the selected variables. The value of Cronbach alpha ranged from 0.798 to 0.896 and the overall reliability is 0.801. Hence, we found the reliability of the data for further examination.

**Table 3. Test of Reliability**

<b>Variables</b>	<b>Cronbach's Alpha(<math>\alpha</math>)</b>
Economic Empowerment	0.832
Employment Generation	0.817
Income	0.884
Savings	0.798
Micro Finance	0.896
<b>Overall reliability</b>	<b>0.801</b>

*(Source: Author's Compilation)*

**Hypothesis testing**

**Table 4. Null Hypothesis 1** (Microfinance does not influence the income of people living in the Mathura district significantly.)

R	0.825
R. Sq.	0.792
Coff.	0.792
t Val.	18.56
P Val.	0.0052
<b>ANOVA</b>	
F Val.	1865.23
P Val.	0.0052

*(Source: Author's Compilation)*

Table 4 shows the results of hypothesis testing. R-value is 0.825, R square value is 0.792 and value is 0.0052. our first null hypothesis has been rejected at a 5% significance level. This indicated that microfinance has a significant impact on the income of people living in rural areas of the Mathura district.

**Table 5. Null Hypothesis 2** (Microfinance does not influence the savings of people living in the Mathura district significantly.)

R	0.628
R. Sq.	0.596
Coff.	0.591
t Val.	24.31
P Val.	0.0008
<b>ANOVA</b>	
F Val.	2051.68
P Val.	0.0008

*(Source: Author's Compilation)*

Table 5 shows the results of hypothesis testing. R-value is 0.628, R square value is 0.596 and value is 0.0008. our second null hypothesis has been rejected at a 5% significance level. This indicated that microfinance has a significant impact on the savings of people living in rural areas of the Mathura district.

**Table 6. Null Hypothesis 3** (Microfinance does not have an impact on the employment generation of people living in Mathura district significantly.)

R	0.786
R. Sq.	0.815

Coff.	0.714
t Val.	20.14
P Val.	0.0007

**ANOVA**

F Val.	1201.53
P Val.	0.0007

*(Source: Author's Compilation)*

Table 6 shows the results of hypothesis testing. R-value is 0.786, R square value is 0.815 and value is 0.0007. our third null hypothesis has been rejected at a 5% significance level. This indicated that microfinance has a significant impact on employment generation for people living in rural areas of the Mathura district.

**Table 7. Null Hypothesis 4** (Microfinance does not have an impact on the economic empowerment of people living in the Mathura district significantly.)

R	0.816
R. Sq.	0.791
Coff.	0.541
t Val.	18.22
P Val.	0.0065

**ANOVA**

F Val.	1325.07
P Val.	0.0065

*(Source: Author's Compilation)*

Table 7 shows the results of hypothesis testing. R-value is 0.816, R square value is 0.791 and value is 0.0065. our second null hypothesis has been rejected at a 5% significance level. This indicated that microfinance has a significant impact on the economic empowerment of people living in rural areas of the Mathura district.

**Conclusion of Study**

Our study aimed to examine the impact of microfinance on rural development, especially in the Mathura district of Uttar Pradesh. Our study indicated that microfinance is very useful to reduce the poverty and increase the economic empowerment of the people living in Mathura. All four hypothesis has been rejected at a 5% significance level. the first hypothesis has shown that microfinance is useful to increase income, the second hypothesis was rejected and shows that savings are improved. The third hypothesis related to employment generation showed the positive impact of microfinance while the fourth hypothesis was rejected which shows the positive and significant impact on economic empowerment.

Further, this kind of study can be conducted for other districts and states to know the impact of microfinance on various things related to the economy. Overall microfinance has a positive impact on the economy.

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