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THE IMPACT OF MICRO FINANCE ON RURAL HOUSEHOLDS AND ITS ROLE IN RURAL DEVELOPMENT AND POVERTY ALLEVIATION AN ANALYSIS OF NORTH EASTERN VILLAGES OF U.P, INDIA

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ABSTRACT

Rural development is primarily concerned with addressing the needs of the rural poor for sustainable economic development. The alleviation of rural poverty can be achieved by identifying income-generating activities and generation of employment in rural areas for socio-economic development.

The rural poor not only need loan at subsides rates but also the easy access to credit facilities like loans, savings, and micro-insurance to promote agriculture production, establish small scale industries and encourage entrepreneurship. Microfinance is expected to strengthen rural employment through generation of new business opportunities, self-employment and by encouraging wage labour and Self-help groups (SHG's) which will reduce migration and accelerate the rural development.

The main objective of this paper is to explore the acceptability of Microfinance by the rural households and to study whether Microfinance facilitates in rural development and poverty alleviation. For which 450 respondents from the north eastern villages of U.P India was selected randomly to analyse the impact of micro finance on these respondents. And, to study the external environment which comprise of the social, economic, and political factors that are facilitating in the success of micro finance.

The need of microfinance arises because the rural India requires sources of finance for poverty alleviation, procurement of agricultural and farms input. It is a commendable effort towards Financial Inclusion. And as we all know that India is agriculture-based economy so microfinance is a tool to empower the farmers and the rural people to make agriculture profitable. Thus, in this paper an attempt has been made to explore the significance of Micro finance for the rural households of North Eastern Villages of U.P. India and the impact of the external environment on micro finance to assist in rural development and poverty alleviation.

Keywords:

Financial Inclusion, Micro Finance, Micro insurance, Rural households, Self-help group (SHG's).

1. INTRODUCTION

The origin of Micro finance or micro credit can be traced to the 1976 when Mohammed Yunnus set up the Grameen Bank experiment on the outskirts of Chittagong University Campus as an experiment. Grameen we mean 'rural or village' in Bangladesh language. These Grameen banks provide loans to the poor who do not have anything to put up for collateral. Grameen banks are the largest rural financial institution in Bangladesh. Their lending guidelines and procedures are mainly for women, 97% are women. In terms of clients, Grameen Bank is doing very well. The word microfinance is being used very often in development vocabulary today. Although the word is literally comprised of two words: micro and finance which literally mean small credit; the concept of microfinance goes beyond the provision of small credit to the poor. Christen (1997) defines microfinance as "the means of providing a variety of financial services to the poor based on market- driven and commercial approaches". This definition encompasses provision of other financial services like savings, money transfers, payments, remittances, and micro insurance, among others. However, many microfinance practices today still focus on micro-credit: providing the poor with small credit with the hope of improving their labour productivity and thereby lead to increment in household incomes.

From small efforts of starting informal self-help groups (SHG) to access the much-needed savings and credit services in the early 1980s, the microfinance sector has grown significantly today. The fact that national bodies like Small Industries Development Bank of India (SIDBI) and National Bank for Agriculture and Rural Development (NABARD) are devoting significant time, energy and financial resources on microfinance is an indication of the importance of the sector. The strength of the microfinance organizations (MFOs) in India is in the diversity of approaches and forms that have evolved over a period.

Microfinance enables the poor and excluded section of people in the society who do not have an access to formal banking to build assets, diversity livelihood options and increase Income, and reduce their vulnerability to economic stress. In the past, it has been experienced that the provision for financial products and services to poor people by MFIs (Micro Finance Institutions) can be practicable and sustainable as MFIs can cover their full costs through adequate interest spreads and by operating efficiently and effectively. This growth of SHGs (Self Help Groups) has liberated millions of families in villages from the clutches of money lenders. Microfinance is not a magic solution that will propel all of its clients out of poverty. But various impact studies have demonstrated that microfinance is really benefiting the poor households.

2. OBJECTIVE OF THE STUDY

- ✓ To study the impact of microfinance on rural households.
- ✓ To find out whether Micro Finance facilitates in Rural Development.
- ✓ To find out whether Micro Finance facilitates in Poverty Alleviation.
- ✓ To study the impact of External Environment that is the economic, social, and political factors on Micro Finance.

3. LITERATURE REVIEW

Self Employed Women's Association (SEWA) in Gujarat launched the first microfinance project in 1974 and established SEWA Bank to offer financial services to people in rural regions who want to launch or grow businesses. 2020 (Jhanvi) As of March 2020, SHGs had an outstanding loan portfolio of Rs. 1,08,075 crores, and the combined microcredit portfolio of 252 lenders had reached Rs. 2,36,427 crores through 1,085 lakh active loans. The amount of credit made available to poor and financially excluded clients reached Rs. 1,01,663 Crore, and the number of clients who benefited over 42 million. The microfinance industry emphasises three main themes. First, it treats microfinance as a strategic component of the government's and central bank's financial inclusion objective, second to assist the underprivileged and unbanked population by having the appropriate mission, client protection procedures, and social performance criteria. 2020 Bharati Microfinance Report the Indian government has undertaken several projects, such as the Deen Dayal For the wellbeing of rural residents, there are several programmes such as Antyodaya Yojana, Aajeevika Grameen Express Yojana, Mahila Kisan Sashaktikaran Pariyojana, Start-up Village Entrepreneurship Programme, National Rural Livelihoods Project, and many more. Reshu Goel and Megha Aggarwal (2020) underlined the vital role that microfinance plays in reducing poverty and empowering individuals on the social, economic, and political levels. Microfinance and entrepreneurship are intertwined, which boosts social status, especially in rural regions, and adds to the national economy by creating jobs. The lack of outreach, excessive interest rates, the neglect of the urban poor, loan default, late payments, client retention, and debt management are only a few of the microfinance difficulties that Sanjeeb Kumar (2015) identified as potential challenges. Indian microfinance is demonstrated by the swift expansion of commercialization and competition, which encourages microfinance institutions to give unbanked populations access to profit-seeking institutions. (Guha, 2013) Countries must take the necessary steps to encourage wealthy competition in the market, along with establishing institutions to monitor and regulate ongoing competition in the microfinance sector. Finally, microfinance institutions (MFIs) can take into consideration social objectives as a competitive criterion to be long-term financial sustainability.

Wondirad 2020 To prevent the poor from becoming victims of any debt, interest rates should be reduced when it comes to regulated MFIs and SHGs because the informal sector raises interest rates as high as 50%–100%. This should be done by focusing on developing commercialization in agriculture and other activities to grant loans or make it easy to access, as well as by raising awareness among them to use e-commerce facilities for selling their products. (Sukalpa & Naikade, 2021) While the Gross Non-Performing Assets (NPA) and outstanding bank loans against SHG are rising steadily, the advantages of various SHG programmes have not been spread fairly. In some rural regions where the SHG programme is difficult to function owing to various factors, the National Agricultural Bank and Rural Development (NABARD) should offer extra money.2016 (Ahlawat) The goal of starting microfinance was to aid the poor, but due to some factors, such as the fact that the poor lack collateral to serve as security against credit, MFI can grant credit to people along with other facilities or new innovative sources, the focus has shifted towards those in need. (2018) Swati Sharma According to research, individual lending, and a big board size boost MFI financial performance. In addition, good bank regulation and servicing urban markets have a substantial relationship with MFI, and during times of crisis in South Asia, MFI individual lending lowers operating costs. Loan sizes on average grow because of bank regulation. 2017 (Asif et al.) To tackle problems caused by MFI practises, it is important to address concerns such as high interest rates, financial illiteracy, inadequate policy design, and excessive debt. (Manju, 2017) In a study, efficiency differences between Indian MFIs' ownership structures were examined from 2006 to 2018 in response to regulatory reforms started by the Reserve Bank of India in 2011. Empirical findings show that the performance gap between Nonbanking Financial Corporations (NBFCs) and non-NBFC MFI is not statistically significant, while MFI size and ownership structure have a positive and statistically significant impact on efficiency level. In 2017, Asif et al. To tackle problems caused by MFI practises, it is important to address concerns such as high interest rates, financial illiteracy, inadequate policy design, and excessive debt. (Manju, 2017) In a study, efficiency differences between Indian MFIs' ownership structures were examined from 2006 to 2018 in response to regulatory reforms started by the Reserve Bank of India in 2011. Empirical findings show that the performance gap between Nonbanking Financial Corporations (NBFCs) and non-NBFC MFI is not statistically significant, while MFI size and ownership structure have a positive and statistically significant impact on efficiency level. Khan and associates 2021 MFIs must focus on their solvency position to have higher profitability and a brighter future, and implementing better financing techniques and products that meet market demands might be the difference. (Chitra & Sangeetha 2021) The Government of India introduced the MFIs Bill 2012 to create a regulator under the Reserve Bank of India (RBI) to oversee and control the activities of NGOs and MFIs. Under the Bill, all MFIs must obtain a certificate of registration from the RBI and the latter has the power to set the maximum annual percentage charged and the maximum margin an MFI may make. (2012) Mahanta et al. Lower financial efficiency was the outcome of the highest lending rates; in particular, during the pandemic, higher interest rate MFIs charged more vulnerable customers, who defaulted on loan repayments and increased demand for smaller loans.

4. RESEARCH METHODOLOGY

Various strategies can be used to collect primary quantitative data. However, in this study simple random sampling was carried out. This is because the aim of this study is to measure variables distributed in a population, that is, to find out the utility of micro finance to various households and to study the contribution of micro finance in rural development and poverty alleviation. From this we can generalize the findings obtained from a sample to the total study population.

Probability sampling involves using random selection procedures to ensure that each unit of the sample is chosen based on chance. All units of the study population should have an equal, or at least a known chance of being included in the sample. Thus, the sample size of 450 respondents was selected randomly from the north eastern villages of U.P India & accordingly the interpretation has been done.

A detail study and in-depth analysis was conducted to find out all the relevant data and information available to get an incisive insight of the rural household's awareness of micro finance and its utility to them. For this, basically the primary data was collected and analyzed. Thus, relying on observation and facts and not merely theory.

Tools Used

The tool used for primary data collection was a survey which was conducted on 400 respondents of different age-group, annual income, employment, risk bearing capacity etc. A questionnaire was framed which comprised of 15 open-ended questions that were framed to know a rural household preference, risk appetite, return expectation, favorable investment option, awareness of micro finance, other financing options available, and financial goals. The responses to the survey were collected through personal interviews which required extensive field work, extensive surveys, and frequent visit to the rural areas. These responses were analysed, interpreted, and exhibited through graphical presentations to present a clear picture of the facts and figures. Group discussion with some of the respondents was also held for eliciting opinion and views regarding various aspects of the research.

Hypotheses framed for the Study

H0A: The rural households are aware of the concept Micro Finance. H1A: The rural households are not aware of the concept Micro Finance.

H0B: There is significant relationship between rural development and Micro Finance. H1B: There is no significant relationship between rural development and Micro Finance. H0C: There is significant relationship between poverty alleviation and Micro Finance.

H1C: There is no significant relationship between poverty alleviation and Micro Finance.

H0D: There is significant relationship between External environmental factors and Micro Finance.
H1D: There is no significant relationship between External environmental factors and Micro Finance.

Testing of Hypothesis

The study examines the awareness of Micro Finance Institutions (MFIs) among the rural households and the economic, social, and political factors that facilitate Micro Finance Institutions (MFIs) to achieve its objective of Financial Inclusion. The established hypotheses determine the significant relationship between Micro Finance and Rural development and Poverty Alleviation and the impact of MFIs on the external environment that is the economic, social, and political factors effecting rural households.

Table 1: Analyzing the dimensions confirming nurturing of the rural poor by Micro financial activities Institutions (MFIs) serving as critical success factors to facilitate Rural Development and Poverty Alleviation

Dimensions	Variables	Mean	S.D.	F	Sig	Accepted/ Rejected
Rural Households	Households Aware about Micro Finance	3.15	1.451	1.646	.004*	Rejected
	Households unaware about Micro Finance	3.09	1.322	1.682	.002*	Rejected
	Micro Finance achieving the objective of Financial Inclusion	3.02	1.411	2.312	.003*	Rejected
	Training Programme for households to make them aware of Micro Finance.	3.84	1.247	1.788	.001*	Rejected
	Micro Finance facilitating Poverty Alleviation	4.04	1.157	1.797	.006*	Rejected

	Uneducated or Low Education level of Households	3.21	1.587	1.81	.001*	Rejected
	Uneducated for financial services	3.09	1.322	1.682	.002*	Rejected
	Households complain about the services of Micro Finance Institutions (MFI).	3.6	1.479	2.226	.021*	Rejected
External Environment						
Economic Factor	Increase in Income	2.81	0.965	1.542	.001*	Rejected
	Increase in Saving	3.15	1.114	1.941	.009*	Rejected
	Increase in Income generating activities	2.87	1.122	2.011	.002*	Rejected
	Reduction of Poverty	2.42	1.019	1.649	.006*	Rejected
	Improved decision power	2.5	1.246	1.797	.006*	Rejected
Social Factor	Communication with financial institution employees	2.79	1.331	1.742	.005*	Rejected
	Participation in social development activities	2	0.987	2.119	.001*	Rejected
	Social structure improvement	2.16	0.995	1.827	.001*	Rejected
	Participation in Village Meetings	2.89	1.458	1.658	.009*	Rejected

Political Factor	Voting independently without money pressure	2.23	1.136	1.782	.010*	Rejected

* Significant at .05 level

After analyzing Table 1, it could be interpreted that the dimensions of Micro finance serve as critical success factors to facilitate Rural Development and Poverty Alleviation and ANOVA (Analysis of Variance) is applied. The significance of value is measured at 5 percent level.

For the dimension rural households, the calculated values of variables are found significant at 5 percent level, so alternated hypotheses is accepted. Hence, it is concluded that there is significant relationship between rural households and their awareness of the concept of Micro Finance so it could be interpreted that rural households are critical success factors for Micro finance.

For the dimension economic factor effecting the external environment the calculated values of variables are found significant at 5 percent level, so null hypotheses is rejected and alternate hypotheses is accepted. Hence, it is concluded that there is significant relationship between economic factor and micro finance success so it could be interpreted that the economic factors are critical success factors for Micro finance.

Similarly, for the dimension social factors effecting the external environment values of F are found significant at 5 percent level, so alternate hypotheses in accepted. So, it could be concluded that there is significant relationship between social factors and micro finance success so it could be interpreted that social factors of MFIs are critical success factors for Micro finance.

For the remaining political factors effecting the external environment values of F are found significant a 5 percent level, so the related null hypotheses will be rejected and alternate hypotheses will be accepted. So, it could be concluded that there is significant relationship between rural households' success, external environment success that comprise of economic, social, and political factors, so it could be interpreted that rural households and external environmental factors of Micro finance are critical success factors for Micro finance.

Table 2: Presentation of Hypotheses on dimensions confirms nurturing of the rural poor by Micro financial activities

Dimensions	**Null /**	**Alternate**	**Hypotheses**
Economic	**Null**	There is no significant relationship between improvement in economic status and Rural Poor	Rejected

	Alternate	There is significant relationship between improvement in economic status and Rural Poor Nurturing.	**Accepted**
Social	**Null**	There is no significant relationship between improvement in social status and Rural Poor Nurturing.	Rejected
	Alternate	There is significant relationship between improvement in social status and Rural Poor Nurturing.	**Accepted**
Political	**Null**	There is no significant relationship between improvement in political status and Rural Poor Nurturing.	Rejected
	Alternate	There is significant relationship between improvement in political status and Rural Poor Nurturing.	**Accepted**

So, from **Table 2**, it could be examined that all the alternate hypotheses were accepted, these hypotheses confirms that all dimensions economic, social, and political are very significant and could ensure that improvement in political, social, and economical state defines the nourishment of rural poor and facilitate in rural development and Poverty alleviation.

5. ANALYSIS & INTERPRETATION

Thus, the basic aim of organizing this research is to examine the critical success factor of MFI in nurturing the rural poor including the examination of factors influences customer satisfaction for the services offered. For this purpose, the data collection was done through three systematic and structured questionnaires. The examination of MFIs employee's opinion about the political, social, and economical dimension and related variables shows that micro financial institution and micro financial activities positively affects the status of a rural poor and nourish the status of living positively.

6. CONCLUSION

Thus, we conclude that Microfinance helps in reduction of poverty and facilitates in rural development. The nature and the outcome of the processes associated to the links between rural microfinance and employment will depend on the combination of two sets of factors: (1) an enabling environment; and (2) the quality of financial service & micro finance.

Microfinance is one way of fighting poverty in rural areas and to overcome poverty, rural people need to be able to borrow, save and invest, and to protect their families against adversity. With this study it was found that there are variations in employment across district & regions in Uttar Pradesh that dramatically affects rural poverty. And Microfinance has strong linkages and implications for poverty reduction and rural development. It is essential for strengthening the non-farm employment and income opportunities along with improved farm productivity through resource diversification towards high-value crops like fruits and vegetables. Then Region-specific development strategies of generating non-farm activities along with improving land productivity are required for reducing rural poverty & strengthening rural development in Uttar Pradesh, India.

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