

A Study on the Impact of Micro Finance on Rural Development in Chikkaballapur District

Dr. Nagaraju R C

Associate Professor of Commerce, University College of Arts, B H Road, Tumkuru-572 103

Abstract

Microfinance, also referred to as microcredit, is a banking service for people with low incomes or those without jobs who have no other means of accessing financial services. They lack the money required to operate a business and are excluded from traditional financial sources. According to this perspective, microfinance is beneficial to the impoverished, particularly in rural regions. With the financial support of the microfinance sector, rural women across the country have made significant strides.. This research attempts to ascertain whether microfinance has been beneficial to the residents of Ramachandrapura, Chikkaballapura, and whether it has actually assisted the rural poor. It also looks at the changes in the poor's standard of living since they started using microfinance. Data is collected from a sample size of 155 using a survey approach and a structured questionnaire. Descriptive analysis, correlation, and the chisquare test are used to examine the data. It is found that respondents' financial holdings have grown in tandem with their living standards following their involvement in microfinance. The respondents claimed that microfinance stimulated economic growth, and it was ultimately concluded that microfinance is essential for rural development.

Keywords: Financial Holdings, Micro finance, Under privileged, Rural Development

1. Introduction:

Low-income individuals, jobless people, or organizations are given access to banking services known as microfinance, or microcredit, because the majority of them are poor, lack access to other financial services, and lack the funds necessary to conduct business with traditional financial institutions. It can be given through loans, insurance, credit, access to savings accounts, and funding for starting a small business. Microfinance primarily provides loans to people in rural and underdeveloped areas of India. Supporting those in need is the main goal of microfinance. Through loans or credit, microfinance provides assistance to those without the funds or resources necessary to start a business. Microfinance organizations support a wide range of initiatives, from offering fundamental services like checking and savings accounts to helping small business owners raise startup capital and offering investment education courses. These courses may include instruction in cash flow management, accounting, and other technical or job-related subjects. On April 02, 1990, SIDBI was established, marking the beginning of microfinance in India. SIDBI is the Indian Small Industries Development Bank's representative. To support small businesses, laws were passed in 1989. SIDBI introduced the act to help those without financial resources with this objective in mind. In the banking industry, NABARD (National Bank for Agriculture and Rural Development) was founded in 1992 and succeeded SIDBI. Lending money to farmers for rural and agricultural projects was the bank's primary goal. A significant role for women

exists in society. Economic decisions and activities are not significantly influenced by women. Women's participation in economic activities and decision-making has increased since the advent of microfinance. In India, between 85 and 95 percent of self-help groups are made up of women. This is because women are more accustomed to handling financial obligations, which makes them more reliable, trustworthy, and punctual savers. Women's empowerment is a crucial part of more general development objectives.

2. Literature Review:

Dr. Shubhra Rahul and Dr. Alok Chandra (2021) sought to investigate microfinance practices, as well as concerns about MFIS self-sufficiency and factors influencing financial sustainability. They found that, despite commercial banks' support for agribusiness and marketing, credit allocated to the rural sector has consistently fallen short of demand.

Asif Khan, Alam Ahmed, and Shireen (2021) found that the MFI sector's performance has improved dramatically. It would be reasonable to inquire about how the COVID-19 pandemic affected MFIs performance level. In order to assess the social characteristics of MFIS, scholars in this field might include additional variables such as the proportion of rural or female borrowers.

A study by Umesh Balu Gadekar (2020) looked at the socioeconomic circumstances of rural poor people. The researcher used percentage, frequency, and the chi-square test. Private microfinance institutions' 340 female clients make up the main source of data. Studies reveal that women from economically and socially disadvantaged backgrounds are more likely to choose private microfinance organizations over public funding sources. To sum up, the development of microfinance as a means of eradicating poverty in rural India demonstrated that women from underrepresented groups were turning to commercial microfinance institutions for financial support. Participants' and non-participants' financial circumstances, the effect of participation on participants' incomes, and an evaluation of respondents' disparities in income distribution

Dr. Vishal Goel (2020) found that female participants were unable to repay the required microcredit amount, and roughly 16% of the participants lacked a steady source of income. It has been established that Indians' income has increased significantly.

In their 2020 study, Sunil Sangwan and Narayan Chandra Nayak [5] looked at the focus on repayment risk related to funding from Indian Microfinance Institutions (mfis). Through surveys and in-person interviews, data is collected from 498 homes. Families with low incomes, high debt levels, loan diversion, and high borrowing costs are found to have a higher default risk. To ascertain the elements impacting mfis' efficiency,

3. Statement of the Problem:

The financial assistance provided by the microfinance industry has resulted in notable advancements for rural women across the country. Seventy-eight percent of the district of Chikkaballapur in Karnataka is rural. Although this area is one of the State of Karnataka's major centers for microfinance, no specific study has examined how microfinance has influenced Chikkaballapur's rural development. In order to close the gap, this study uses Chikkaballapur as an example to highlight the significance of microfinance in rural development.

4. Objectives of the study:

- To examine the impact of Micro finance on the rural development of Ramachandrapur ,Village in

Chikkaballapur District

- To analyze the connection between the yearly income of female respondents and their repayment rates.
- To investigate the connection between the duration of involvement in microfinance and income post receiving microfinance benefits

5. Hypotheses:

H₁: A notable connection exists between the annual income of respondents and their loan repayment levels.

H₂: A notable correlation exists between the number of years the respondent has engaged in microfinance and their income following participation in microfinance

6. Methodology of Research:

6.1: Data Sources:

Primary Data: A survey approach is used with a structured questionnaire, considering all the study-related aspects, to obtain accurate data. Those who receive microloans in Ramachandrapura village and Chikkaballapur district are regarded as respondents because it is a survey method.

Secondary Data: The websites of the Karnataka microfinance institutions are the source of secondary data about the programs provided by these organizations for women. Research papers, journals, and articles also provide some of the data.

6.2: Sample Size

One hundred and fifty four residents of Ramachandrapura village in the Chikkaballapur district who have been granted microloans are selected to participate in the study.

6.3: Tools Used:

Frequencies:

The detailed account of data is examined using frequencies. Frequency analysis can be used to investigate descriptive statistics, data frequency, and percentages. This facilitates the straightforward acquisition of a clear perspective on the collected data. It provides a thorough summary of the variables, including the mean and standard deviation of all participant responses as well as the percentage and number of respondents who chose each response.

Chi-squared test:

The difference between the observed and expected frequencies of a set of variables or events is measured using a statistical test known as chi-square.

6.4: Research restrictions:

This research solely focuses on the Chikkaballapur district in Karnataka. Only 155 respondents are included in this study. The precision of the responses provided determines the outcome. The study is limited by the 2023–2024 time frame.

7. Areas for further research:

This study shows that microfinance has contributed to rural women's overall advancement in the studied area. Focusing on the extent of entrepreneurial activities among rural women who benefit from microfinance services can broaden the study. This allows us to ascertain whether microfinance's impact on these rural women will last.

8. Data analysis:

155 respondents who receive microloans in the district of ramachandrapura and chikkaballapur provided the data for this study. A structured questionnaire is used in a survey approach to collect the data. The participants were questioned regarding their understanding of microfinance, the reasons they joined or did not join, their living standards following their involvement, and the interest rates related to microfinance. A variety of statistical methods are used to analyze the collected data

Table 1: Respondents' demographic information

| Features | Category | Number of Respondents | Percentage |
|--------------------|-------------------|-----------------------|------------|
| Age | Less Than 25 | 38 | 24.51 |
| | 25-35 | 52 | 33.55 |
| | 35-45 | 58 | 37.42 |
| | 45-55 | 07 | 04.52 |
| Qualification | SSLC | 100 | 64.51 |
| | Graduate | 23 | 14.84 |
| | Others | 32 | 20.65 |
| Marital Status | Single | 51 | 32.90 |
| | Married | 104 | 67.10 |
| Yearly Income(Rs.) | Less Than 50,000 | 05 | 03.23 |
| | 50,000-1,00,000 | 63 | 40.65 |
| | 1,00,000-1,50,000 | 87 | 56.12 |

Source: Field Survey

The demographic variable frequencies obtained from the responses of women participating in SHG-BLP in a particular area are displayed in Table 1. 70.97% of the sample is middle-aged, specifically between the ages of 25 and 45. Of those surveyed, 64.51% are matriculated. This suggests that compared to banking and other financial services, matriculated students find microfinance services easier and faster to access.

Table- 2. Summary of Case Processing
Chi-square test for Annual income * Repayment of existing loan

| Summary of Case Processing | | | | | |
|--|---------|---------|---------|-------|---------|
| Annual income * Repayment of Existing loan | Cases | | | | |
| | Valid | Missing | | Total | |
| | Percent | N | Percent | N | Percent |
| | 97 | 3 | 2 | 155 | 100 |

Source: Field Survey

Table-3 Cross Tabulation of Annual Income and Repayment levels of existing loan

| Yearly Income | Existing Loan Repayment | | | | Total |
|---------------|-------------------------|-----------|-----------|----|-------|
| | Fully Paid | Half Paid | More than | 13 | |

| | | | Half Paid | | |
|---------------------|-----------|-----------|-----------|-----------|------------|
| 0-Rs.8,000 | 00 | 00 | 01 | 00 | 01 |
| Rs.8,000-Rs.18,000 | 00 | 04 | 00 | 00 | 04 |
| Rs.18,000-R48,000 | 09 | 44 | 22 | 00 | 75 |
| Rs.48,000-Rs.98,000 | 05 | 22 | 45 | 00 | 72 |
| 7 | 00 | 00 | 00 | 02 | 02 |
| Total | 14 | 70 | 68 | 02 | 154 |

Source: Field Survey

Table-4 Chi-Square test for Yearly income and Existing Loan Repay,emt

| | Value | dof | Asymptotic Significance(2 sided) |
|------------------------------|---------|-----|----------------------------------|
| Pearson X ² | 178.706 | 20 | .000 |
| Probable Ratio | 44.476 | 20 | .005 |
| Linear by Linear Association | 45.626 | 02 | .000 |
| No of Valid cases | 154 | | |

Source: Field Survey

There is a clear correlation between respondents' annual income and loan repayment levels, as shown in Tables 2, 3, and 4. It is below the critical value of 0.05, as indicated by the projected chi-square value of 0.00. (d f = 20, p = 0.00, X² = 178.706). This suggests a strong correlation between respondents' yearly income and their capacity to pay back existing debt. Higher yearly income levels allow participants to respond promptly and without major delays. As a result, the alternative hypothesis H₁, according to which the respondent's current loan repayment levels and annual income are significantly correlated, is accepted.

Table-5 Summary of Case Processing

X² test for years of existence in microfinance and income after taking microfinance

| years of existence in microfinance * | Cases | | | | | |
|--------------------------------------|-------|----|---------|----|-------|-----|
| | Valid | | Missing | | Total | |
| | N | % | N | % | N | % |
| Income after taking Microfinance | 154 | 99 | 01 | 01 | 155 | 100 |

Source: Field Survey

Table-6 Cross Tabulation of Years of existence in microfinance and Income after taking microfinance

| Duration of Existence in Micro Finance in Years | Count | | | |
|---|----------------------------------|----------|----|-------|
| | Income after taking Microfinance | | | |
| | Increased | Constant | 15 | Total |
| 3 | 16 | 09 | 00 | 25 |

| | | | | |
|--------|-----|----|----|-----|
| 4 | 44 | 05 | 00 | 49 |
| 5 | 38 | 06 | 00 | 44 |
| Others | 34 | 02 | 00 | 36 |
| 10 | 00 | 00 | 01 | 01 |
| Total | 132 | 22 | 01 | 155 |

Source: Field Survey

Table-7 X² test for years of existence in microfinance and income after taking microfinance

| | Value | dof | Asymptotic Significance(2 sided) |
|------------------------------|---------|-----|----------------------------------|
| Pearson X ² | 168.825 | 16 | .000 |
| Probable Ratio | 30.313 | 16 | .012 |
| Linear by Linear Association | 22.685 | 01 | .000 |
| No of Valid cases | 154 | | |

Source: Field Survey

Tables 5, 6, and 7 show that the estimated chi-square value is 0.000, which is less than the crucial value of 0.05. (df=16, p=0.000, X² =168.825). This shows that respondents' income after participating in microfinance and the number of years they have been involved in microfinance are significantly correlated. This suggests that microfinance has improved members' financial circumstances and raised income levels, especially in the short term. The living standards of women would eventually raise as a result. Thus, the alternative hypothesis H₁ that there is a significant relationship between the respondent's years of microfinance involvement and income following microfinance use is confirmed.

9. Findings

1. There is a significant correlation between respondents' annual income and their capacity to pay back previous loans. Participants with higher annual incomes are able to make payments on time and without significant delays. Consequently, the alternative hypothesis H₁, which states that there is a substantial correlation between the respondents' annual income and loan repayment rates, is approved
2. A significant correlation has been found between the respondents' years of microfinance experience and their income following participation; that is, microfinance improved the members' financial standards and raised their income levels, particularly in the short term. Therefore, the alternative hypothesis H₂, which states that there is a significant correlation between the respondent's years of experience with microfinance and their income following microfinance, is accepted.
3. The middle-aged population, specifically those aged 25 to 45, makes up 70.97% of the sample. 64.51% of the respondents are matriculated. This shows that matriculated students find microfinance services faster and easier to access than banking and other financial services.
4. The respondent's financial assets have increased as a result of participating in microfinance. Since using microfinance, the respondent's financial resources have increased, improving their quality of life.

10. Suggestions:

Although people in rural areas are accustomed to credit schemes, they have little knowledge of microfinance services and programs. Therefore, in order to provide rural residents with the education and activities they require to learn about other microfinance initiatives that would support the development and empowerment of rural communities, the government should support MFIs and SHGs

11. Conclusion:

This research calculates the impact of microfinance on rural development. MFIs provide loans to the poor and disadvantaged in rural areas; these loans serve as their primary source of income, guaranteeing both their financial stability and the growth of the national economy. Following their involvement in microfinance, the respondents' financial holdings increased and their standard of living marginally improved. As a result, it can be said that microfinance is crucial to the rural development of the region and a significant source of income for rural residents, particularly in Ramachandrapura and Chikkaballapur District. Through microloans, the rural women were able to support their families and enhance their quality of life.

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