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IMPACT OF MICROFINANCE ON POOR PEOPLE: A STUDY OF LIVING STANDARDS, EMPOWERMENT AND POVERTY ALLEVIATION IN THE DAVANAGERE DISTRICT OF KARNATAKA STATE

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ABSTRACT

Microfinance is provision of small amounts of institutional loans to low income people who could not access loans from formal sector finance. Major objective of extending the loans is to alleviate poverty by creating jobs and incomes. While reducing poverty, microfinance services are supposed to build asset bases of their clients to manage and cope up with risks. Microfinance programmes are also expected to empower women clients by improving their decision-making roles and self-esteem, among others. However, whether microfinance programmes are bringing about desired changes is debatable. With this background the present paper is aims to assessing the impact of microfinance on empowerment, living standard of poor people and poverty alleviation.

KEYWORDS

Empowerment, Living Standard, Micro-finance and Poverty Alleviation.

INTRODUCTION

Microfinance programs have significant potential for contributing to women's economic, social and political empowerment. Access to savings and credit can initiate or strengthen a series of interlinked and mutually reinforcing 'virtuous spirals' of empowerment. Microfinance development has emerged as major strategy to combat the twin issues of poverty and unemployment that continue to pose a major threat to the polity and economy of both the developed and developing countries. A number of agencies- Government as well as Non-government Organizations- are, today involved in micro-finance development initiatives. For women, the development quagmire presents a challenge as to which way a reversal from 'development with women' into 'women with development' can be realized. From the 1990s, microfinance came to be seen as a window of hope by development agencies who largely trail economic development. Such zeal originates from the idea that microfinance can provide for 'killing two birds with one stone'. It can facilitate poverty reduction through improved quality of life on the one hand, and women's empowerment on the other. This means that through microfinance, women can be engaged in the market both for market efficiency gains and for their own gains in challenging hegemonic gender relations. To this end, the donor community, national governments, and other grass root-based development agencies took microfinance high on their agenda.

OBJECTIVE

In the light of research problem, the present study is aims to access the impact of Microfinance on living standards, Empowerment of the poor people and poverty alleviation in Davanagere of Karnataka.

RESEARCH METHODOLOGY

The present study is mainly based on the primary data has been under taken in Davanagere District of Karnataka state about the impact of microfinance on poor people. The researcher chosen the respondents with a long experience in microfinance activities because they are well informed and know much about the pros and cons about its activities, so they can reflect better to questionnaire. The well-structured questionnaire has been utilized for collecting the data by interviewing the clients. Total 110 respondents have been selected by randomly for the interview. For analyse the data and draw the conclusion the simple statistical tools like mean, standard deviation were used in addition to regression analysis.

DATA ANALYSIS AND INTERPRETATION

TABLE 1: DEMOGRAPHIC PROFILE OF THE RESPONDENTS

Variables	Measuring Group	Frequency	Percentage (%)
Gender	Male	18	16.37
	Female	92	83.63
	Total	110	100
Age (years)	<25	28	25.54
	25-40	71	64.55
	>40	11	10.0
	Total	110	100
Educational Levels (in years)	Illiterate	24	21.83
	1-5	51	46.37
	6-10	23	20.90
	>10	12	10.90
	Total	110	100
No. of Family Members	1-3	30	27.3
	4-6	43	39.1
	>6	37	33.6
	Total	110	100
Business Experience Before Joining MFI	Yes	21	19.1
	No	89	80.9
	Total	110	100

Source: Field Survey

Table 1 provides the information about the gender distribution of the respondents. It shows that 83.63% of the respondents were female and whereas 16.37% were male. The lion shares of the respondents were women that testify to the fact that most of the beneficiaries of microfinance are female because we have selected people randomly without any bias towards the gender.

There are good reasons to target women by MFIs, because gender discrimination is one of the major causes of poverty, slower economic growth, weaker governance and lower standards of living and women are poorer and more disadvantaged than men. However, women contribute decisively to the well-being of their family comparatively more than men.

In terms of age, 64.55% of the respondents were in the age group of 25 to 40 years. 25.54% were less than 25 years of age and remaining 10.0% were 40 years and above. We also classified the respondents in terms of their educational experience. It could affect the way in which they manage and live their daily lives and manage the household and business.

From this survey, it realized that many of the respondents had at least basic primary education, which represents 46.37% of sample, however 20.90% had secondary educational experiences and only 10.90% had more than 10 years of educational experiences. Rest of the 21.83% had no educational background.

TABLE 2: SOURCE OF STARTUP CAPITAL OF THE RESPONDENTS

Variables	Measuring Group	Frequency	Percentage (%)
Source of Start up capital	Personal Savings	5	4.54
	Friends or Relatives	7	6.36
	Loan from MFIs	86	78.18
	Other Sources	12	10.90
	Total	110	100

Source: Field Survey

Table 2, shows the source of startup capital of the respondents. 78.18% of total respondents have taken their loan from MFIs. Rest of them have either borrowed money from friends and relatives or have started business from their personal savings. It implies that MFIs is the major source of initial capital and is playing a significant role in helping poor people to start their own business.

TABLE 3: AMOUNT OF LOAN TAKEN FROM MFIs

Characteristics	Measuring Group	Frequency	Percentage (%)
Amount of Loan Received from MFIs (in thousand Rs)	<5	38	34.54
	5-10	60	54.54
	>10	12	10.91
	Total	110	100

Source: Field Survey

In the table 3, analyzed the loans granted to individuals on three different scales, less than Rs. 5000, Rs. 5 to 10000 and more than Rs. 10000. Majority of granted loans, around 90% are within Rs. 10000, which implies that MFIs, basically emphasize on micro-credit. Few of respondents also got loan above Rs. 10,000, which goes into another criteria of loan offered by MFIs. Indirectly, the result shows that, the lack of sufficient capital to start up a medium-scale business due to less amount loan offered by MFIs.

TABLE 4: GENERAL DESCRIPTIVE STATISTICS

Variables	Mean	S.D	Standard Error Mean
Reasonability of Interest Rate of Micro-Credit	2.96	1.009	0.097
Procedure of Loan Taking	4.01	0.726	0.070
Operational Assistance	3.39	0.891	0.085
Operational Assistance	2.86	0.938	0.090

Source: Field Survey

The table 4 displays the mean, standard deviation and standard error mean for four variables, procedure of loan taking, operational assistance, employment opportunity and reasonability of interest rate of micro credit. All the variables show the satisfaction level to be more than average level of satisfaction (2.5).

TABLE 5: T-TEST OF DIFFERENT VARIABLES

Characteristics	Test Value	t-statistics	Degrees of Freedom	Significance Level	Mean Difference	95% Confidence Interval	
Reasonability of Interest Rate of Micro-Credit	2	9.972	0.000	0.000	0.963	0.77	1.15
Procedure of Loan Taking	3	14.504	108	0.000	1.009	0.87	1.15
Operational Assistance	3	4.513	108	0.000	0.385	0.22	0.55
Employment Opportunity	2	9.603	108	0.000	0.862	0.68	1.04

Source: Field Survey

To examine the statement, interest rate of micro-credit is reasonable or not, we developed hypotheses and agreed upon the level of significance for rejecting/accepting the hypothesis. Survey respondents indicated their perceptions using the scale, with 5 = strongly agree and 1 = strongly disagree. We took the null hypothesis to be, borrowers are less satisfied than the average level of satisfaction (2.5), in terms of the interest rate of micro credit. Therefore, the alternative hypothesis is the borrowers are satisfied more than the average satisfaction level. The analysis in the table 5 demonstrates that the null hypothesis is rejected and it is strongly significant. So study results are in favor of alternative hypotheses. This means that the satisfaction level of the respondents, about the interest rate of micro-credit, is more than average satisfaction level. From this study, it can conclude that the level of average satisfaction is quite high.

TABLE 6: REGRESSION ANALYSIS BETWEEN INCREASE OF INCOME AND ROLE IN DECISION-MAKING PROCESS (ANOVA)

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	8.704	1	8.704	14.191	0.000(a)
Residual	65.626	107	0.613		
Total	74.330	108			

Source: Field Survey

Note: a) Predictors: (Constant), increase of income

b) Dependent Variable: Role in decision-making process

TABLE 7: REGRESSION ANALYSIS BETWEEN INCREASE OF INCOME AND ROLE IN DECISION-MAKING PROCESS (COEFFICIENT VALUES)

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sign.
	B	Std. Err.	Beta			
Constant	1.755	0.386	0.342	4.542	0.000	
Increase of income	1.388	0.103	3.767	3.767	0.000	

Source: Field Survey

Note: Dependent Variable: Role in decision-making process

TABLE 8: REGRESSION ANALYSIS BETWEEN IMPROVEMENT OF LIVING STANDARD AND DIFFERENT VARIABLES (COEFFICIENTS)

Model	Unstandardized Coefficients		Standard coefficients	t	Sig.
	B	Std. error	Beta		
(Constant)	1.299	0.364		3.564	0.001
Better access to Education	0.262	0.103	0.240	2.553	0.012
Better access to Healthcare	0.192	0.082	0.218	2.354	0.020
Better financial Situation	0.316	0.069	0.369	4.546	0.000

Source: Field Survey

Note: Dependent Variable: Improvement in living standard

In the above tables, we consider improvement in the living standard of family as dependent variable and better access to education, better access to healthcare, better financial situation of the family as independent variables. Here is our null hypothesis state that there is no relationship between improvements in the living standard of family and better access to education, better access to healthcare and better financial situation of the family. Where are the alternative hypothesis states that better access to education, better access to healthcare and better financial situation in the family are related to the improvement in the living standard of the family.

Information provided in the Coefficients table tells us, which of the independent variables are significant predictors of improvement in the living standard of family. In the significance column, it is noticed that beta coefficients for access to education, access to health care and better financial situation in the family are all significant. Using the beta coefficient for better financial situation in family, for example, it can be conclude that every time the financial situation in the family increase by 1 unit, improvement in the living standard of family will increase on average by 0.369 units, when the other variables are held constant. Information in the coefficients tables reveals that better financial situation in the family is the most significant predictor of improvement in the living standard of family, with a high beta coefficient 0.369 (probability of 0.000).

CONCLUSION

The goal of this research was to study the impact of microfinance on reduction of poverty through improvement of living standards and increasing empowerment of poor and marginalized quarter of the society.

The analysis of data using the survey we had done, demonstrates that almost 83.63% clients of MFIs are women and most of them just had primary education. Most of the women started their business by taking loan from MFIs as compared to other sources. They were able to increase their income and provided not only with the financial help to their families but also had positive impact on other factors of daily life. These poor women brought about a positive change to their financial and social situation and started taking active part in the decision making process of the family and society. The results obtained from our analysis regarding the success of increasing role in decision making process in the family, reveals that microfinance schemes are highly associated to build up of social and economic empowerment.

To sum up, it can be noticed from overall analysis that there is significant impact of microfinance activities on improvement of the living standard of the family not only in economic term but also in social term. From this study, the researchers have come to the conclusions that there is a noticeable and positive impact of microfinance activities on the living standards, empowerment and poverty alleviation among the poor people in the society.

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