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## **Impact of microfinance on living standards of poor people (Special reference of rural area of eastern Uttar Pradesh)**

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### **Abstract**

Microfinance is not a new development but started in 1976, by Muhammad Yunus. Whos vision was to come up and have succeeded in reaching the poorest of the poor and improvement of their living stander. To understand the phenomena in this study researchers have focused to understand the impact of MFIs in living stander of rural people. Researchers have used primary as well as secondary data in their study. Sample based on the random sampling technique, from five districts of east Uttar Pradesh. Researchers have interviewed the respondents who are already involved in microfinance activities. From the analysis of data, researchers found that microfinance has the positive impact on the standard of living of the poor people and on their life style. Microfinance has not only helped the poor people to come over the poverty line, but has also helped them to empower themselves. Researchers have developed a theoretical model to understand the impact of MFIs.

**Keywords:** Microfinance rural people. Living stander (education, health care economic status) food security

### **Introduction**

Microfinance is not a new development but the history of microfinance is four decades old in 1976, founded by Mohammed Yunus. He founded Grameen Bank in Bangladesh and begun accessing Micro Finance services to poor women in South Asia villages. Some developed countries like European countries as well as developing countries particularly Asian countries have a long history of microfinance. Microfinance evolved as a type of the informal banking for used the poor. Informal finance and self-help group have been at the Foundation of microfinance in European countries. The early history of microfinance in Ireland can be traced back to 18<sup>th</sup> century. It is a history of how self-help group led to financial innovation, legal backing and conductive regulation, and creating a mass microfinance movement rural population. But the unpleasant rules and regulations prompted by commercial banking brought it down.

On 13th October 2006, the Nobel Peace Prize went jointly to Muhammad Yunus and Gramen Bank, the microfinance institution which Muhammad Yunus founded 30 years ago. The man who proved himself to be a global leader who has managed to translate visions into practical action for the benefit of millions of rural people, not only in Bangladesh, but also in many other Countries. The idea of loans without any financial security had appeared to be an impossible for poor people the visionary man, Muhammad Yunus, the founder of Grameen Bank, tells us the goal spread of micro-credit and finance, which give us the hope, *for milian of eople* “*Maybe our great-grandchildren will go to museums to see what poverty was like*”. Data indicates that there is huge impact of microfinance on the lives of millions of poor people particularly women. Various research scholars and NGOs are working to take microfinance within the reach of poor and rural population, who are still not benefited by the conventional financial system. Researcher and professionals believed that microfinance is not important for all people but most groups can benefit from this innovative idea. In this research paper, researchers try to present evidence of the important contributions made by microfinance institutions in the eradication of poverty by increasing the income generating activities, empowerment of poor people to access development process such as health facilities and education, and reduction in vulnerability.

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## **Microfinance**

Microfinance is a concept of economic development approach which involves in providing financial assistance, through institutions, to low-income clients, where the formal financial market fails to provide appropriate services. Microfinance services provided by the Microfinance Institutions (MFIs) include credit saving and insurance services. Many microfinance organizations also provide social intermediation services such as skill development, training and education, organizational support, health and skills in line with their development objectives.

According to PwC's Microfinance Lenders Survey (2019), 71% of the financial institutions believe that Eastern part of India offers the maximum potential for growth in future due to relative saturation in the southern markets.

## **Micro-credit**

Micro-credit is a component of microfinance and is the extension of small loans to the poor people qualify for informal bank loans in developing, specially rural areas for establishment of their small business or engage in self-employment projects that generate income to be empowered to improve the standard of living for themselves and their families.

Availability of credit is of paramount importance to retain and service microfinance customers. To encourage more borrowing among customers and stimulate the slowing Indian economy, RBI has increased the lending limit for low-income borrowers from INR 1 lakh to INR 1.25 lakh<sup>29</sup> and also increased eligible income limit from the current level of INR 1 lakh per annum for rural areas.

## **Poverty**

Poverty is a matter of subjectivity and varies among country to country, a condition in which a person of community is deprived of the basic essentials and necessities for a minimum standard of living. Since poverty is subjective matter and can be understood in many senses, the basic essentials can be material resources such as food, safe drinking water and shelter, or they may be social resources such as access to information, education, health care, social status, and etc In 1980, World Bank's definition of poverty, "A condition of life so characterized by malnutrition, illiteracy, and disease as to be beneath any reasonable definition of human decency".

## **Literature Review**

According to Barr, Michael S (2005)<sup>[3]</sup> Microfinance is a form of financial development that has primarily focused on alleviating and improves the living standard of poors through providing financial services. Micro finance has broader concept which is not only lending small amounts of money to the poor but it also has a broader perspective which also includes insurance, transactional services, and importantly, savings.

According to James Roth (2002), "Microfinance is a bit of a catch all-term. Very broadly, it refers to the provision of financial products targeted at low-income or group of poor people. Kirkpatrick *et al.* (2002), financial services include credit, savings and insurance products. A series of neologisms has emerged from the provision of these services, name micro-credit, micro-savings and micro-insurance".

## **The Grameen Model**

According to Harper, M. (2003), In developing country like India, policies for rural financial development have been based on three erroneous beliefs concerning their target groups: 1. Rural people are unable to recognize themselves, 2. Their poverty level is too high to save; and 3. they need cheap credit facility for their income-generating activities for their empowerment.

According to report of Ibid, (2003), there are three financial policies which have resulted from these conjectures.

1. The credit-oriented facilities and special programs were set up which ignored savings mobilization.
2. Credit facility was subsidized.
3. A generous credit guarantee schemes were set up to cover the anticipated losses.

Benefit the rural poor.

According to report of Women's World Banking (1994), indicate that apparently only 2% of micro entrepreneurs are being provided service by banks.

Roy, Mark A. (March 2003) have reported that Dr. Yunus found out that even with this tiny amount of money it is possible not only to help the rural and poor people to survive but also to create the spark of personal initiative and enterprise in the people, necessary to pull themselves out of poverty line.

## **Village Banking**

According to Murray, U. and Boros, R. (2002), village banking is a financial services model which assists rural or village area and poor communities to establish their own credit and saving associations, or village banks. Village bank provides non-collateralized loans to its members and a place to invest savings and promote social solidarity. Village banking agency provides loan for the village banks and village banks in turn provide individual loans to its members.

## **Human Development**

Rising the income is basic parameter of human development, However, it is true that other parameters or variables have also deep relation with development. The main objective of development is on the reduction of poverty rather than raising average incomes. In general microfinance institutions targets human development that is geared towards both the economic and social uplift of the people they cater for. According to Ghalib, Asad K. (2007), Tackling poverty is multidimensional concepts that emphasizes on reducing the unemployment rate, infant mortality, maintaining essential healthcare, sanitation, food, nutrition basic hygiene, establishing gender equality etc.

Annual Report (2005), the objective of microfinance is to create sustainable changes in the lives and livelihood of the poor, women in particular.

Mohindra, Katherine S.; Haddad, S. (November 2005), and Debra Lipson's (1998) review of potentially pro-health PASs included community and microfiancial institutions economic development, agriculture and nutritional food policies, good education policies, macroeconomic policies and environment or infrastructure investments to improve the supply of electricity safe water and basic sanitation.

### Health Program

Health intervention has been an integral part of the Micro Finance Institutions. Microfinance institutions have made a similar policy to identify the health problems, undertake rigorous experimentation and try to explore the health problems and then apply suitable, affordable and culturally acceptable technology. According to Annual Report (2005), throughout the work process, financial intuitions measure and monitor its implementations and recommends corrective actions to modify methods of implementation of program.

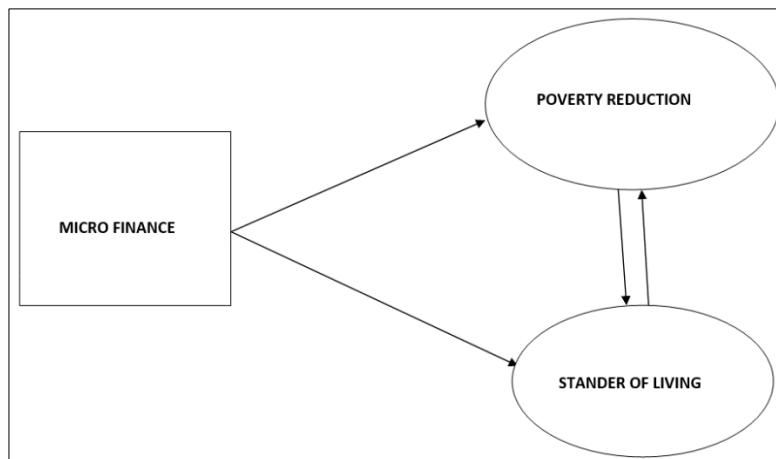
### Education Program

Education Program is an important goal of all microfinance institutions and is to spread the light of education throughout the society. Development of education program, along with the health program, indicates human development among the people. The effort and mission

microfinance is to build up a society free of poverty, illiteracy and disease. According to report of Ibid (2016), microfinance goals are to expand education opportunities for poor class children and provide them with necessary technical and financial support.

### Food Security Program

Food security is one of the challenging task in the developing countries and achieving household food security remains a critical objective of rural development. This can be done in principle by fast improvement of agricultural productivity and off-farm income, thus improving the capability of households to steady growth of their income and food purchasing power. According to Zeller, M.; Meyer, Richard L. (2002), *Food security, at the household level, is most basic form as access, by all people at all times, to the food needed for a healthy life.*



**Fig 1:** Theoretical frame work

### Objective of the study

To study the impact of microfinance activity on living standard of rural people.

### Research Methodology

In this research study descriptive research method has been used. Researchers have used structured questionnaire for collecting the data by interviewing the clients attached to the MFIs. The respondents for the interview are selected randomly. To get the address and respondents of the interviewees in different areas, researchers took help from the local branches of Microfinance institutions and from the local people of the particular areas. The data have been collected from village area of east Uttar Pradesh from where the microfinance activities started in east Uttar Pradesh and continued to Ballia, Ghazipur, Mau, Gorakhpur Varanasi and Jounpur. Districts.

### Data Analysis

**Table 1:** Multiple Regression Analysis among Different Variables Related To Standards Of Living Poor People

	N	Mean
Improvement in living standard	350	4.33
Better access to education	350	4.21
Better access to healthcare	350	4.42
Better financial situation	350	
Valid N (listwise)	350	3.05

Statistics of different variables related to living standards of rural people.

**Analysis:** The means for Independent variables excess, to education (4.21), excess to health care (4.42) and better financial situation (3.05), all are above the mid-point of the 5-points satisfaction scale and therefore it shows the positive perceptions of the rural people about these attributes

**Table 2:** Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.651	0.423	0.411	0.563

Regression analysis between improvement of living standards and different variables

**Analysis:** Table 2 the value of R = 0.651 which indicates positive impact on financial situation of the family. While R-square for the model is 0.423. This means that 42.3

percent of the variation in the improvement of living standards of family can be explained from the three independent variables.

**Table 3:** Anova testing

Model	Sum of Squares	Df	Mean Square	F	Sig
Regression	25.165	3	8.385	25.243	0.003(a)
Residual	33.521	346	0.318		
Total	58.786	349			

A) Constant: Better financial situation, better access to healthcare, better access to education;

B) Dependent Variable: Improvement in living standard.

**Analysis:** The overall regression results are shown in the ANOVA table (3). The regression model is statistically significant (F ratio=25.243, significance level 0.003).

### Conclusion

The main objective of this study is to understand the impact of microfinance on reduction of poverty through improvement of living standards of poor and marginalized people of eastern Uttar Pradesh. On the basis of present research study, we can conclude that there is a noticeable and positive impact of microfinance activities on the living standards, among the poor people in rural area.

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