

**AN EMPIRICAL STUDY ON CONCEPTUAL FRAME WORK OF  
BUILDING CAPACITY & THE ROLE OF MICRO FINANCE ON  
POVERTY REDUCTION: EVIDENCE FROM CHICKMAGALORE  
DISTRICT**

**Prof. Subrahmanya K C\***

**Dr. S Baskaran\*\***

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**1. Introduction**

The role of Micro Finance on Poverty Alleviation & Capacity building of Beneficiaries is a very important for the economic development of the country. It always helps to make a step forward. For that, Microfinance Institutions (MFIs) are designed to reach the poor this paper is an attempt to comprehend the role of MFIs and its associated factors towards poverty alleviation and building capacity of beneficiaries of surrounding of chickmagalore District. It deals with primary data of 100 borrowers collected through structured questionnaire and personal observation from the specified area. To serve the objective, a cross sectional research with a structural questionnaire was conducted. Applying ordered logistic regression it has been observed that MFIs do act as a supportive tool for psychological, economic and social empowerment of borrowed beneficiaries of the selected district.

Micro finance is primarily an informal institution which performs financial functions. But it has several linkages with formal financial institutions like banks and other political institutions say local bodies, state government & Central government. Thus it acts as a sub – system of these

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\* **Assistant Professor, Department of Management Studies (MBA) Global Academy of Technology, Rajarajeswarinagar , Bangalore - 98**

\*\* **Head & Associate Professor, Department of Management Studies (MBA) Dr. Ambedkar Institute of Technology, Bangalore**

institutions and takes part in activities of eradicating poverty as well as of capacity building processes of women who take part in it. Thus, microfinance plays an instrumental role in enhancing the capacities of poor women.

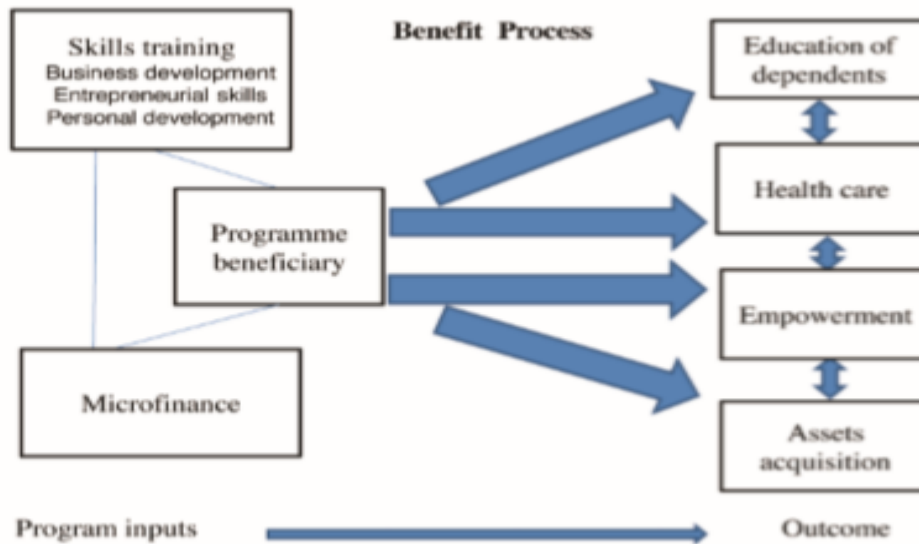
Microfinance also acts as a means to enhance the economic capacity of the poor women. It is considered as the first step for microenterprises. Now a days, microfinance is used by a number of governmental agencies, non-governmental organisations and voluntary organizations to reach the poor people.

These agencies help people organize themselves to improve their capability through training, monitoring and guidance for initiating and operating gainful microenterprises.

The microfinance organisation under study, Samatha, VanithaSwayamSahayaSangham (SVSSS) has also been trying to enhance the resource base of the community through microfinance by helping the poor women in the locality by mobilizing their savings, giving credit on convenient basis and initiating income generating activities by them.

Microfinance is only a means and not an end. The ultimate goal is to reduce poverty. Government, NGOs and other financial institutions have introduced various welfare schemes and activities to reduce poverty. Microfinance, by providing small loans and savings facilities to those who are excluded from commercial financial services has been developed as a key strategy for reducing poverty throughout the world.

## Conceptual Framework of Building Capacity



## 2. Literature Review

1. **Hiderink and Kok (2009)** The UN millennium goal to alleviate poverty by the year 2015 is far from fetch despite the enormous works that microfinance institutions are doing to contribute in this domain.

2. **Crabb P (2008)** has examined that the relationship between the success of microfinance institutions and the degree of economic freedom in their host countries. Many microfinance institutions are currently not self-sustaining and research suggests that the economic environment in which the institution operates is an important factor in the ability of the institution to reach this goal, furthering its mission of outreach to the poor. The sustainability of the micro lending institutions is analyzed here using a large cross-section of institutions and countries. The results show that microfinance institutions operate primarily in countries with a relatively low degree of overall economic freedom and that various economic policy factors are important to sustainability.

3. **Helmes, (2006)** Although micro finance has been much-admired to reduce poverty and vulnerability to it in some regions of the world, it is estimated that there are still three billion people in the world currently who do not have access to any form of financial services.

4. **Dr.AjitKumarBansal, Ms.AnuBansal (2012)** Microcredit and microfinance have received extensive recognition as a strategy for poverty reduction and for economic empowerment. Microfinance is a way for fighting poverty, particularly in rural areas, where most

of the world's poorest people live. Accessing small amounts of credit at reasonable interest rates give poor people an opportunity to set up their own small business. It shows that access and efficient provision of microcredit can enable the poor to smooth their consumption, manage their risks better, gradually build their assets, develop their micro enterprises, enhance their income earning capacity and enjoy an improved quality of life.

**5. Chintamani Prasad Patnaik (March 2012)** has examined that microfinance seems to have generated a view that microfinance development could provide an answer to the problems of rural financial market development. While the development of microfinance is undoubtedly critical in improving access to finance for the unserved and underserved poor and low-income households and their enterprises, it is inadequate to address issues of rural financial market development.

**6. Statement of the Problem**

Data of the Indian economy shows that, a large section of the poor and marginalized sections of Indian economy are financially excluded. They don't have access to the various financial services provided by the institutional set up, and access to financial services is not uniform throughout the economy. This necessitates a good mechanism to operationalize financial inclusion. Literature on microfinance shows that, there is a need for the research and data to be conditioned on implementing microfinance and determining its effectiveness in India. To tackle this problem effectively, much more research is needed to measure and track the impact of microfinance on poverty alleviation. So this study will focus on the impact of microfinance on poverty alleviation of households belonging to the economically weaker sections.

Poverty alleviation has been the foremost concern of policy makers all over the world. Financial inclusion of the poor and marginalized class is a necessary step in this regard. This helps to equalize opportunities and reduce inequalities. Therefore, financial sector policies which are crucial for equitable growth and broader access to financial services are a required step in this regard. To achieve this, empirical evidence that links access to financial services to development outcomes will have to be developed. This has made the area of Micro Finance a challenging one, in view of policy planning for effective financial development. But in ground reality, access to finance by the poor, weaker sections, marginalized, is limited due to several reasons.

## 7. **Objectives**

- a. To study the impact of microfinance initiatives on income level of the respondents.
- b. To study the impact of SHG/MFIs loans on members and their standard of living
- c. To study the impact of microfinance initiatives in providing better employment opportunities
- d. To analyses the overall impact of microfinance on poverty alleviation.

## 8. **Research Design**

### 5.1 **Type of Research**

Quantitative research is based on the measurement of quantity or amount. It is applicable to phenomena that can be expressed in terms of quantity (numbers). Qualitative research, on the other hand, is concerned with qualitative phenomenon (words), i.e., phenomena relating to or involving quality or kind. For instance, when we are interested in investigating the reasons for human behavior (i.e., why people think or do certain things), we quite often talk of ‘Motivation Research’, an important type of qualitative research.

It is a difficult task to express the impact of microfinance on poverty levels of participant households with the help of few sentences. Few impacts can be expressed only in terms of numbers (like savings, income etc,)on the other hand few impacts can only be expressed in descriptive ways (like access to education, employment opportunities etc,)

The questioner is designed in a structured manner where it covers both quantitative and qualitative information regarding the impact of microfinance.

### 5.2 **Sample Design**

The population for our study encompasses the people who have been engaged in microfinance activities for at least two years and live in Narasimharaja Pura Taluck and Sringeri Taluck, of Chickmagalore District, Karnataka State. Data was collected through a structured questioner from the members of Self Help Groups (SHG) from the above mentioned two regions. The members of SHGs were selected randomly.

### 5.3 Sources of Data

**Primary Source:** Collection of data from the members of Self Help Groups through a structured questioner.

**Secondary Sources:** It is important that the secondary sources, we have used, should be of relevance and should be of good source of inspiration. Hence, we tried to pick up most of the researches, which were peer-reviewed and used by other researchers for their studies. This criterion of selection ensured the quality of secondary sources.

## 9. Analysis & Interpretation

### 7.1 Demographic Factors

Variables	Measuring Group	Frequency	Percentage (%)
<b>Gender</b>	Male	38	38
	Female	62	62
	<b>Total</b>	<b>100</b>	<b>100</b>
<b>Age (Years)</b>	<25	09	<b>09</b>
	25-50	59	<b>59</b>
	>50	32	<b>32</b>
	<b>Total</b>	<b>100</b>	<b>100</b>
<b>Education</b>	Illiterate	41	41
	Literate without formal education	09	09
	Primary	23	23
	Secondary/Higher	20	20
	PUC & Above	7	7
	<b>Total</b>	<b>100</b>	<b>100</b>
<b>Number of members in family</b>	2	5	5
	2-5	39	39
	>5	56	56
	<b>Total</b>	<b>100</b>	<b>100</b>
<b>Occupation</b>	Agricultural & Related	29	29
	Daily Wager	48	48
	Other	18	18
	Unemployed	5	5
	<b>Total</b>	<b>100</b>	<b>100</b>

*Table- 01: Demographic information of the respondents*

Table -01 provides the information about the Demographic information of the respondents. It shows that 62% of the respondents were female and 38% 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. 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, 59% of the respondents were in the age group of 25 to 50 years. 3 2% were above 50 years of age and remaining 9% were below 25 years of age. Which clearly suggest that the working population strongly rely upon microfinance for their financial needs.

Our analysis shows that only 5% of respondents had two or less members in their family, which indicates that respondents were either unmarried, or had no children. 39% had 2 to 5 members and remaining 56% had more than five members. We tried to find out how many family members each respondent have because a large family size usually has higher expenses than a smaller family. As far as microfinance is concerned most of the business have are sole proprietorship or a family run business where family members contribute to this small-scale business as additional workers.

In terms of occupation 29% of the respondents depend on Agricultural and allied for their livelihood, 48% of the respondents are daily wagers and 5% of the respondents still remain unemployed despite efforts of microfinance activities to encourage some sort of self-employment options which will help in alleviating poverty.

## 7.2 Purpose of Joining SHG/MFI

Variables	Measuring Group	Frequency	Percentage (%)
Purpose of Joining SHG/MFI	Savings	29	29
	Access to Credit	35	35

	Skill Development	02	02
	Self-Employment	04	04
	Income Generation	30	30
	<b>Total</b>	<b>100</b>	<b>100</b>

**Table- 02: Purpose of Joining SHG/MFI**

Table – 02 shows that majority of the respondents 35% of them use microfinance as a credit lending mechanism for their financial needs, 29% of the respondents involve themselves in microfinance activities for savings, 30% of the respondents look at some kind of income generation and only 6% of the respondents have joined Microfinance activities for Self-employment and skill development. Microfinance initiatives should focus more on skill development and self-employment for achieving poverty alleviation.

### 7.3 Source of Initial Capital

Variables	Measuring Group	Frequency	Percentage (%)
<b>Source of Initial Capital</b>	Personal Savings	32	32
	Relatives & Friends	00	00
	Loans from SHG/MFI	61	61
	Other	07	07
	<b>Total</b>	<b>100</b>	<b>100</b>

**Table- 03: Source of Initial Capital**

Table 03, shows the source of initial capital of the respondents. 61% of total respondents have taken loan from MFIs. Rests of them depend on either personal savings or other financial sources to start their business. From the analysis it is evident that loans form SHG/ MFIs is the major source of initial capital and is playing a significant role in helping poor people to start their own business and in turn eradicate poverty form their lives.



#### 7.4 Have you taken Loan from SHG/MFI

Variables	Measuring Group	Frequency	Percentage (%)
Taken loan from SHG/MFI	Yes	90	90
	No	10	10
	<b>Total</b>	<b>100</b>	<b>100</b>

*Table- 04: Have you taken Loan from SHG/MFI*

The data in the Table 04 indicate the majority of the respondents i.e., 90% have taken loans from SHG/MFI for their financial needs and only 10% of respondents have not availed any loans from the SHG/MFI for their financial needs.

#### 7.5 Amount of loan taken from SHG/MFI

Variables	Measuring Group	Frequency	Percentage (%)
Amount of loan taken from SHG/MFIs	<Rs. 10,000	02	2.1
	Rs 10,000 – Rs 25,000	34	36.2
	>Rs 25,000	58	61.7
	<b>Total</b>	<b>94</b>	<b>100</b>

*Table- 05: Amount of loan taken from SHG/MFI*

Amount of loan granted by the SHG/MFIs are seen in Table- 05, where we have analyzed the loan granted by the SHG/MFI to households on three different scales. Majority of the loans granted i.e., 61.7% are above Rs25,000/- which shows that majority of the households use microfinance for their medium term financial needs. About 36.2% of the respondents have availed a loan amounting between Rs10,000/- to Rs 25,000/- and only 2.1% of the respondents use these loans for their micro financial needs. It is evident from the above that the loans granted by the SHG/MFIs are sufficient to start up a small scale business.

## 6. Findings

- The study shows that 62% of the respondents were female and 38% were male
- 59% of the respondents were in the age group of 25 to 50 years which shows that the working population strongly relies upon microfinance for their financial needs.
- Most so the respondents had no formal education.
- 48% of the respondents are daily wagers and 5% still remain unemployed
- 35% of the respondents joined SHG/MFI to gain access to credit
- 61% of the respondents have started their business by taking loan from SHG/MFI
- About 62% of the respondents have taken loans more than Rs 25,000/- from SHG/MFI

## 7. Conclusion

To sum up, it can be noticed from our 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. Amazingly, the relation between different factors of society and family became evident and clear, which were being neglected and not thought about during the period of existence of only conventional banking system. From our study, we 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 especially in the rural backdrop.

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