

# Role of Microfinance in Poverty Alleviation and Financial Inclusion: A Study of Rural Himachal Pradesh

**Mahender Kumar**

Economics Department, Sobon Singh Jeena University, Campus Almora (Uttarakhand)  
mk7736913@gmail.com

## Abstract

Microfinance is the provision of financial services to low-income, self-employed, and financially deprived people. The proposed study explains the role of microfinance on poverty alleviation and financial inclusion in rural areas of Himachal Pradesh. Proposed study analyzes how microfinance influences income levels, employment opportunities, and credit accessibility. The findings highlight the effectiveness of microfinance in fostering economic resilience and financial stability among rural households. Using primary and secondary data, the study aims to evaluate the role of microfinance in poverty alleviation and financial inclusion. Furthermore, the study concluded that microfinance is playing an important role in poverty alleviation and improving financial inclusion. The findings of the study will provide insights and guidance to policy makers and to motivate more rural people to take up self-employment and connect with microfinance.

**Key Word - Micro Finance, Poverty Alleviation, Financial Inclusion, Rural Area, marginalized communities.**

## I. INTRODUCTION

The concept of microfinance was first coined by Muhammad Yunus, founder of Grameen Bank in Bangladesh and Nobel Prize winner in 2006. It provides for a wide range of financial services such as low income savings, money savings for small industries, group trading, risk bearing capacity, loans for small industries etc. Microfinance is also defined as financial assistance given to poor and low-income people. Adnan, & Kumar, (2021). Considering the importance of micro finance, the year 2005 was declared as the year of micro credit by the United Nations. Since then microfinance has been continuously playing an important role in reducing poverty. Microfinance provides financial services to low-income and self-employed people who traditionally do not have access to banking services. **Bansal, (2012).** Microfinance plays an important role in dealing with the externalities of poverty through which there is an increase in the income, assets, food security and the possibility of developing the people. Micro finance is also a good tool for self-empowerment, it helps in fighting poverty, starting a business, reducing your exposure to illness, weather and other external shocks. 19.3 million People in the world are provided financial services by microfinance institutions of which 74 percent are women. Most of these women have their own owned businesses which they run themselves. Adu, (2014). Microfinance has become a

symbol for rural empowerment and socio-economic transformation of India. In the last three decades, it has achieved significant success in developing entrepreneurship among millions of economically backward women, their financial integration and empowerment and in organizing them. This program of microfinance has promoted the ethos of self-reliance among all stakeholders. Financial Inclusion Capacity Building Due to social mobilization, microfinance has proved to be a milestone in inclusive growth and sustainable development in the rural areas of the country. The expansion of microfinance bank linkages program has achieved significant milestone. Where in 1992, 225 organizations were associated with it, in the financial year 2024, it has expanded to 14.22 lakh organizations. Besides, the loan disbursement of S.H.G increased from R.s. 29 lakh in 1992 to R.s. 2, 09,286 crore, which shows its impressive expansion. (NABARD 2024)

**Financial inclusion initiative in Himachal Pradesh-** Microfinance have expanded in Himachal Pradesh and are now standing very strongly. Microfinance has also worked to promote the collective planning in the state by joining hands with various government and non-government organizations, joint venture institutions in the state. Microfinance has approved Rs 20 lakh to various non-government organizations for the development and bank linkages of 550 joint credit groups during the financial year 2023-24. Which shows that work

on financial inclusion for Himachal Pradesh is being done through micro finance. (Economic Survey 2023-24).

### A. Features of Microfinance

1. It is an essential part of rural development.
2. It plays an important role in social development. It reduces poverty of people, increases education level and increases employment.
3. It fulfills the needs of rural people through small loans.
4. It emphasizes on effective strategies for poverty alleviation in rural area.
5. It provides incentives to develop self-employment opportunities.
6. It gets more service providers and less profit.
7. It aims to meet the needs of small entrepreneurs and producers in rural area.
8. Emphasizes on financial inclusion of rural people who are mostly economically deprived.
9. It plays a vital role in empowering women and developing business habits in them.
10. It also focuses on financial inclusion of the people.

### B. Role and Importance of microfinance

In India, the central government and state governments have been continuously emphasizing on poverty alleviation and financial inclusion of the people. Along with this, microfinance is also playing an active role in poverty alleviation and financial inclusion. Microfinance has been playing an important role in financial inclusion over the past few decades which can be defined by some points given below.

- 1). **Loans to the rural poor**- Usually rural people depend on non-institutional agencies for loans. For the past five decades microfinance has been playing a leading role in disbursing credit to the rural people and making them self-reliant.
- 2). **Poverty alleviation**- Microfinance is focusing on reducing poverty in rural areas and increasing self-employment, due to which the income of the people is increasing.
- 3). **Increase in banking habits** -Microfinance is increasing the banking habits of people in rural areas by accepting loans and their savings.
- 4). **Women Empowerment**-Microfinance creates groups of women and provides those loans collectively so that their business skills and income can increase.
- 5). **Increase in employment**-Microfinance is helpful in establishing self-employment in rural areas and increasing their employment.
- 6). **Social Welfare**-Microfinance is playing an important role in social welfare by fulfilling the small financial needs of the people.

- 7). **Increase in saving**- Microfinance first gives loans to people and when their income increases due to it, then people use some part of their increased income for saving.
- 8). **Mutual cooperation**-Microfinance provides loans to most groups, due to which everyone makes a collective effort to move forward. As a result, the feeling of mutual cooperation becomes stronger among all the people.
- 9). **Leadership development**-Microfinance helps in setting up industrial units by providing loans to people, as a result of which people receive mass training. Due to which leadership qualities develop in them.
- 10). **Rural development**- Microfinance helps in providing employment to rural groups by giving those loans thereby improving the standard of living of the rural people. Thus microfinance plays an important role in poverty alleviation, women empowerment, social development and providing employment.

## II. OBJECTIVES

The study attempt to achieve the following objective:-

1. To assess the impact of microfinance on poverty alleviation and income enhancement of rural households in Himachal Pradesh.
2. To evaluate the role of microfinance in improving financial inclusion and access to credit for marginalized communities in rural Himachal Pradesh.

## III. METHODOLOGY

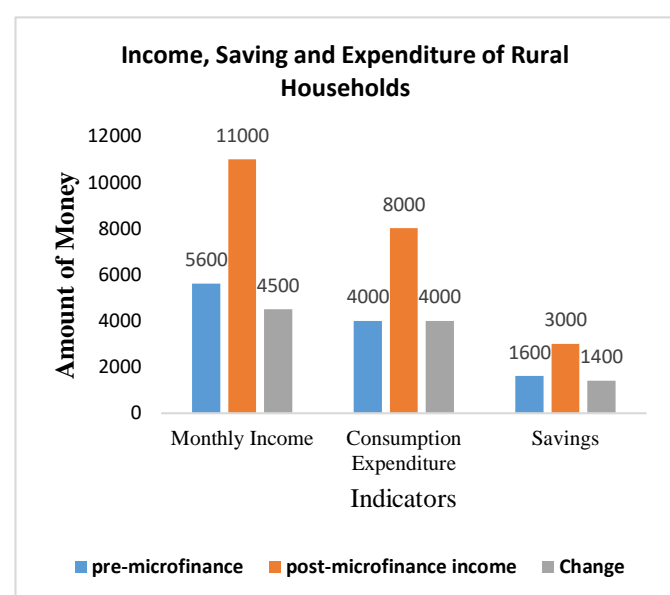
In the present study, Lahaul-Spiti district has been purposively selected to conduct an empirical study on the role of microfinance in poverty alleviation and financial inclusion in rural areas.. Where 100 percent of the population lives in villages. District Lahaul-Spiti is divided into two development blocks, hence the field study is restricted to Lahaul block. In the first stage, all panchayats were arranged in ascending order of population from which 5 panchayats were randomly selected. In the second stage, 4 villages were selected from each panchayat in ascending order of population. Thus, a total of 20 villages were randomly selected, which included microfinance beneficiaries, SHG members, and MFI representatives and financially deprived rural households. Data has been collected through both primary and secondary sources. For collecting primary data, data has been collected from 100 respondents by using and well-designed questionnaire and face to face interviews. Whereas secondary data has been collected from secondary source Magazine, Journal, Govt Report and Research Paper. The data collected was analyzed through Chi-square and t-value test and standard deviation to fulfill the objective of the proposed study.

## IV. RESULT AND DISCUSSION

### A. The impact of microfinance on the income and expenditure of rural households

Indicators	pre-microfinance	post-microfinance income	Change	t-Value / Chi-Square	p-Value
Monthly Income	5600	11000	4500	4.25	0.001** *
Consumption Expenditure	4000	8000	4000	3.89	0.002**
Savings	1600	3000	1400	3.10	0.004**
Livelihood Diversification	27%	73%	46%	$\chi^2 = 15.67$	0.000** *
Mean	2806.75	5518.25			
STD	2145.306	4248.558			

Note-Data represent monthly income



The table shows the effects of changes on income, consumption expenditure, savings and lifestyle diversification of rural households. The table shows the increase in average monthly income of rural households after micro finance intervention. Before microfinance the monthly income of the respondent was Rs 5600 which increased to Rs 11000 which shows a profit of Rs 4500. The statistical test results (4.25,  $p=0.001$ ) confirm that this increase is highly significant at the 1 percent level. This shows that access to microfinance has enabled rural families to expand their own income producing activities like self-employment and small scale enterprises.

The table also shows that microfinance has significantly increased the consumption expenditure of the respondents from Rs. 4,000 to Rs. 8,000. The statistical results ( $t=3.89$ ,  $p=0.002$ ) confirm that microfinance has played a significant role in

improving household consumption. Respondents can now afford better food, education, health care and other essential needs than before.

The table shows that before microfinance the savings was Rs 1600 which later increased to Rs 3000 which shows an increase of Rs 1400 in the savings. Statistical results ( $t=3.10$ ,  $p=0.004$ ) confirm that microfinance has provided more support to household savings which in turn reduces financial vulnerability during financial crisis.

The table also shows that before microfinance only 27 percent of the respondents were engaged in productive activities which later increased to 73 percent showing an increase of ( $\chi^2 = 15.67$ ) 46 percent. The growth in livelihood development shows that microfinance has provided new opportunities to rural families away from traditional farming like small scale businesses, livestock, poultry, and local business which is an important sign of economic empowerment. Hence, the study clearly shows that microfinance has a positive impact on poverty alleviation and income growth of rural households.

### B. Analysis of Financial Inclusion and Credit Access

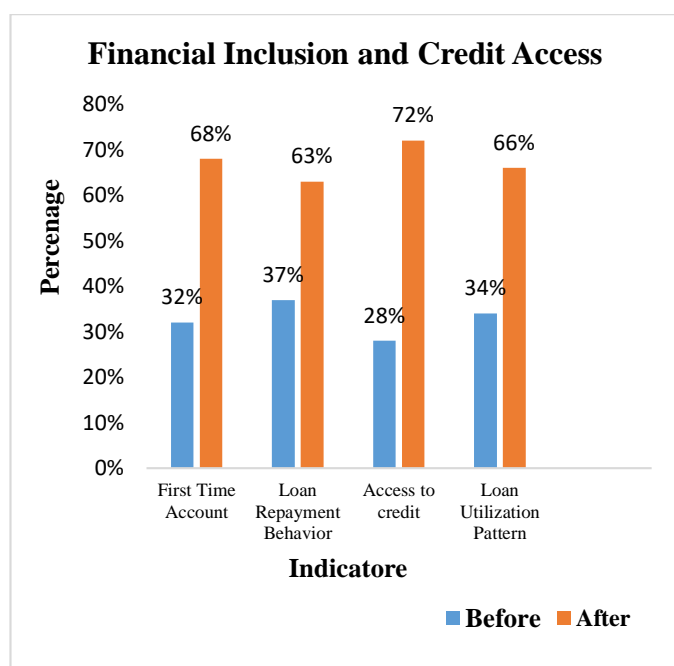
Credit Access	Before	After	Chi-Square ( $\chi^2$ )	p-Value
First Time Account	32%	68%	14.72	0.000***
Loan Repayment Behavior	37%	63%	10.34	0.002**
Access to credit	28%	72%	16.85	0.000***
Loan Utilization Pattern	34%	66%	12.45	0.001***

The table analyses the changes in credit access and financial behavior of rural households under financial inclusion. The table shows that before microfinance only 32 percent of the respondents had a bank account which later increased to 68 percent. It shows a high chi-square value of 14.72 which indicates the statistically significant nature of this change.

The table shows that before microfinance only 37 percent of people used to repay their loans regularly which later increased to 63 percent. This change is significant as it shows that microfinance has strengthened the loan repayment habits of rural people.

The table shows that before microfinance, 28 percent of rural households had access to credit which later increased to 72 percent. The chi-square value of this variable is 16.85 which indicates a strong effect of access to credit.

The table shows that microfinance has also had a positive impact on the loan utilization pattern. Before microfinance, only 34 percent of the respondents had utilized the loan properly which later increased to 66 percent. Its chi-square value is 12.45 which indicates significant result.



## V. CONCLUSION

The study concluded that microfinance had a positive impact on respondents' income and poverty alleviation and financial inclusion for marginalized communities in rural areas and microfinance has also played an important role in improving access to credit. As a result, the respondents used their increased income to build assets, diversify their life and increase savings. Most of the respondents spent their increased income in purchasing land, house, livestock, agricultural equipment and transportation means etc. Hence micro finance is one of the widely accepted, appreciated and non-discriminatory banking loan products. After analyzing the study the following suggestions are proposed to make micro finance more widespread.

1. Microfinance should expand its reach to more rural people and provide support for more productive activities.
2. Governments should organize camps in villages from time to time for financial literacy related to microfinance.
3. The government should open more banking institutions in rural areas to ease access to credit.
4. To improve loan utilization, the government should monitor the loans given from time to time so that the loans can be utilized for productive purposes only.
5. Inspire the rural people to open self-employment and to develop leadership qualities in them, also make proper arrangements for training them from time to time.
6. The loan process provided by microfinance should be made more simple and accessible so that rural people can get loans easily.
7. The banking system should be better coordinated with microfinance so that more and more rural people can access financial services.
8. There should be continuous surveys and research for further assessment and betterment of micro finance.

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