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The Impact of Microfinance on Rural Household Income

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Abstract

This study investigates the impact of microfinance on rural household income in five selected villages of Cachar district, Assam: Lalang Part-IV, Ujan Tarapur, Pailapool, Fulertal, and Kashipur. Employing a descriptive research design, the study uses both primary and secondary data. A sample of 150 microfinance beneficiaries was selected using purposive and convenience sampling methods. They were surveyed with structured questionnaires and interviews. Respondents were selected based on the criterion that they had availed themselves of microfinance loans at least six months prior to the study period, which spanned from August to December 2024. Socio-economic data reveal that most beneficiaries are female, aged 26–35 years, married, and engaged in agriculture. Using descriptive statistics and paired samples t-tests, the analysis demonstrates a significant increase in household monthly income post-loan, from an average of Rs. 5,144 to Rs. 8,408 (p-value < 0.001). These findings highlight the potential of microfinance as a catalyst for sustainable rural economic growth.

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1. Introduction

Microfinance has emerged as a pivotal tool for fostering economic development and alleviating poverty in rural areas across the globe. By providing small-scale financial services, such as loans, savings, and insurance, to individuals who lack access to traditional banking systems, microfinance institutions (MFIs) have empowered millions to break free from the vicious cycle of poverty (Yunus, 2007). In the context of rural economies, where agriculture and small-scale enterprises are the backbone of livelihoods, access to credit and financial services plays a crucial role in enhancing household income and improving socio-economic conditions (Morduch, 1999).

India, with its vast rural population and diverse economic landscape, has embraced microfinance as an essential mechanism for financial inclusion. The government, along with non-governmental organizations (NGOs) and self-help groups (SHGs), has facilitated the growth of microfinance initiatives to address the credit needs of marginalized communities (NABARD, 2022). Despite its potential, the impact of microfinance on rural households' economic outcomes remains a subject of debate, with scholars emphasizing the need for localized studies to understand its implications better (Khandker, 2005).

This study delves into the impact of microfinance on rural household income in the Cachar district of Assam, a region characterized by its agrarian economy and socio-economic challenges. The district, like many rural areas in India, grapples with limited access to formal financial services, which hampers the growth of small-scale enterprises and agricultural productivity (Das, 2018). By examining the role of microfinance in this specific region, the study aims to provide valuable insights into its effectiveness in improving household income and driving rural development.

The research is structured to assess not only the economic benefits but also the socio-economic transformations triggered by access to microfinance. Through the analysis of primary data collected from 150 respondents across five villages, the study

highlights the demographic, occupational, and educational profiles of beneficiaries and evaluates the extent to which microfinance has influenced their income levels. By focusing on a specific geographical area, the research aims to contribute to the broader discourse on financial inclusion and rural development, offering evidence-based recommendations for policymakers and stakeholders to enhance the reach and impact of microfinance programs.

1.2 Objectives of the Study

The present study has the following objectives:

i. To identify the socio-economic status of the beneficiaries of microfinance.

ii. To study the impact of microfinance on the income level of the beneficiaries of microfinance.

1.3 Research Questions

1. What is the socio-economic status of the beneficiaries of microfinance in select villages of the Cachar district, Assam?

2. What is the impact of microfinance on the income level of the beneficiaries of microfinance in select villages of the Cachar district, Assam?

2. Literature Review

Theoretical Perspectives on Microfinance and Economic Development

The theoretical foundation of microfinance is grounded in development economics and theories of financial inclusion. According to the financial intermediation theory, microfinance institutions (MFIs) serve as intermediaries between savers and borrowers, facilitating the flow of funds to underserved populations (Robinson, 2001). The poverty alleviation theory posits that microfinance helps reduce poverty by providing the poor with access to capital, thereby enabling them to engage in productive economic activities (Yunus, 1999). Furthermore, the empowerment theory suggests that microfinance empowers marginalized groups, particularly women, by providing them with financial resources and decision-making power, which in

turn leads to improved social and economic outcomes (Mayoux, 2001).

Global Studies on the Socio-Economic Impact of Microfinance

Empirical research on the socio-economic impact of microfinance globally has yielded mixed results. Some studies have found significant positive effects on income, consumption, and poverty reduction. For instance, a study by Khandker (2005) in Bangladesh reported that microfinance participants experienced higher household incomes and reduced poverty levels. Similarly, Banerjee et al. (2015) found that microfinance interventions led to increased business investments and income in several countries. However, other studies have highlighted the limitations and challenges of microfinance, such as high-interest rates and over-indebtedness, which can undermine its potential benefits (Bateman & Chang, 2012).

Indian Context: Case Studies and Statistical Analyses

In India, the impact of microfinance has been extensively studied through various case studies and statistical analyses. Swain and Varghese (2011) examined the effects of microfinance on women's empowerment and economic well-being in rural India, finding that access to microfinance significantly improved women's autonomy and household income. Another study by Seibel and Almeyda (2002) highlighted the role of microfinance in promoting entrepreneurship and economic development in urban slums. Additionally, statistical analyses have shown that microfinance has contributed to financial inclusion and poverty reduction across different states in India (Sinha, 2005).

Specific Studies from the North-East India Region

Research on microfinance in North-East India, including Assam, has provided insights into the region's unique socio-economic dynamics. Sarma (2015) conducted a study on the impact of microfinance on income and poverty alleviation in Assam, finding that microfinance programs led to significant improvements in household income and living standards. Another study by Das (2016) explored the challenges and opportunities of microfinance in the North-East, emphasizing the need for tailored financial products and services to meet the specific needs of the region's

diverse population. Kumar and De (2018) investigated the role of self-help groups (SHGs) in enhancing financial inclusion and social cohesion in rural Assam, highlighting the positive impact of microfinance on community development.

Research Gaps

Despite the extensive research on microfinance, several gaps remain, particularly in the context of Cachar district, Assam. Existing studies often focus on the broader impacts of microfinance in various regions, but there is limited research specifically addressing the socio-economic outcomes and income changes among beneficiaries in Cachar. While some studies have highlighted the general benefits of microfinance, they often lack detailed analysis on how these financial services affect local cultural, economic, and social dynamics unique to Cachar (Kumar & De, 2018; Sarma, 2015). Moreover, there is a need for longitudinal studies that track the long-term impacts of microfinance on household income and poverty alleviation in this region.

3. Research Methodology

This study employs a descriptive research design, utilizing both primary and secondary data sources. Secondary data are gathered from various books, journals, research articles, reports, and theses. Primary data are collected using structured questionnaires and interview methods directly from the microfinance services beneficiaries who are residing in the villages of Lalang Part-IV, UjanTarapur, Pailapool, Fulertal, and Kashipur in Cachar district, Assam. A purposive and convenience sampling method is used to select a sample size of 150 respondents, with 30 respondents chosen from each of the five selected villages. Respondents were chosen based on the criterion that they had availed of microfinance loans at least six months prior and had utilized the loan. To assess the impact of microfinance on the income levels of the beneficiaries, the study compares their income before availing of the loan and at least six months after receiving the loan. Primary data collection occurred between August 1, 2024, and December 31, 2024. The collected data are analyzed and interpreted using tables, graphs, and descriptive statistical tools such as mean, percentage, and paired samples t-tests.

4. Data Analysis

4.1 Socio – economic profile of the respondents

Age Distribution

The age distribution of the beneficiaries is shown in Table 1. It is observed that the majority of the respondents belong to the age group of 26 to 35 years which is 38.67 % of the total respondents. 34.67 % of the respondents are in the age group of 36 to 45 years and 17.33 % of the respondents are in the age group of above 46 years. Fewer respondents are below 25 years (9.33%). It can be inferred that the majority of the Microfinance beneficiaries of the select villages are under the age group of 26 to 35 years.

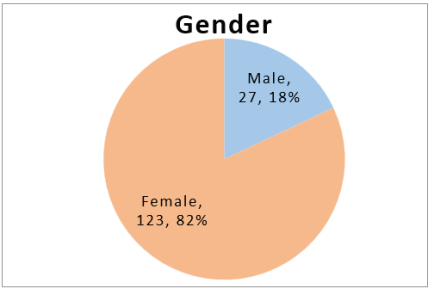
Table 1: Age Distribution of the respondents

Age Group	Frequency	Percentage
Below 25 years	14	9.33
26 – 35 years	58	38.67
36 – 45 years	52	34.67
Above 46 years	26	17.33
Total	150	100

Source: Primary data

Gender

Figure 1 represents the gender distribution of the respondents. It shows that most of the respondents are female which represents 82 % of the total respondents and 18% of the respondents are male. It can be inferred that the majority of the Microfinance beneficiaries of the select villages are Female.



Source: Primary data

Educational Status

Table 2 represents the educational status of the respondents. It is observed that most of the respondents have studied up to High School (32 %) followed by Primary level (26 %) and Higher Secondary school (20 %). Fewer respondents are illiterate (18.67 %). It can be interpreted that the majority of the microfinance beneficiaries of the select villages have studied up to the High School level of education.

Table 2: Educational status of the respondents

Education Status	Frequency	Percentage (%)
Illiterate	28	18.67
Primary Level	39	26
High School	48	32
Higher Secondary School	30	20
Graduate	5	3.33
Total	150	100

Source: Primary data

Marital Status

Table 3 represents the marital status of the respondents. It is observed that most of the respondents are Married (74.67 %) and 36 % of the respondents are Unmarried (24 %). Fewer respondents are widows/divorced (2 %). It can be interpreted that the majority of the microfinance beneficiaries of the select villages are married.

Table 3: Marital Status of the respondents

Marital Status	Frequency	Percentage (%)
Married	112	74.67
Un-married	36	24
Widow / Divorce	2	1.33
Total	150	100

Source: *Primary data*

Family Size

Table 4 represents the number of family members of the respondent. It shows that most of the respondents (45.33 %) have "3 – 5" members in their family. 42.67 % of the respondents have "6 – 9" members; 8 % of the respondents have more than or equal to 10 members; and 4 % of the respondents have only 2 members in their family. It can be interpreted that the majority of the microfinance beneficiaries of the select villages have a family size of "3 to 5" members.

Table 4: No. of Family Member

Member	Frequency	Percentage
2	6	4
3-5	68	45.33
6-9	64	42.67
10 and Above	12	8
Total	150	100

Source: Primary data

House Ownership Status

Table 5 represents the house ownership status of the respondents. It shows that most of the respondents are living in their own house (88.67 %) and 9.33 % of the respondents are living in their relative's house. Fewer of the respondents are living in rented houses. It can be inferred that the majority of the microfinance beneficiaries of the select villages have their own house.

Table 5: House ownership status of the respondents

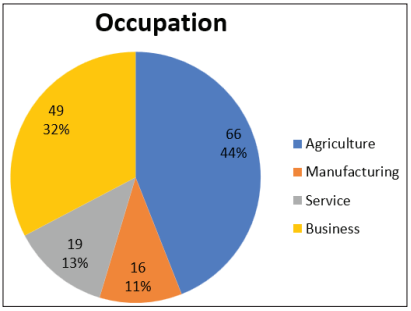
Status	Frequency	Percentage
Owned	133	88.67
Rented	3	2
Relative's house	14	9.33
Total	150	100

Source: Primary data

Occupation

Figure 2 represents the occupations or activities of the respondents. It shows that most of the respondents are engaged in agricultural activity (44 %), which is followed by the activities of Business (32.66 %), Service (12.67 %) and Manufacturing (10.67 %). It can be inferred that the majority of the microfinance beneficiaries of the select villages are engaged in Agricultural activity.

Figure 2: Occupation of the respondents



Source: Primary data

Household Monthly Income

Table 6 represents the household monthly income of the respondents. It shows that most of the respondent's household monthly income is Rs. (7,001 to 10,000) i.e. 43.33 % of the total respondents. 30.67 % of the respondents' household monthly income is Rs. (4,001- 7,000); 17.33 % of the respondents' household monthly income is Above Rs. 10,000; and fewer (8.67 %) of the respondents' household monthly income is less than Rs. 4,0000. It can be interpreted that the majority of the microfinance beneficiaries of the select villages earned a monthly household income of Rs. (7,001 to 10,000).

Table 6: Household Monthly Income of the respondents

Income Group	Frequency	Percentage
Less than 4,000	13	8.67
4,001 – 7,000	46	30.67
7,001 – 10,000	65	43.33
Above 10,000	26	17.33
Total	150	100

Source: Primary data

Impact of Microfinance on income level of the beneficiaries

To study the impact of microfinance on the income level of the beneficiaries, we compare the household monthly income of the beneficiaries before availing microfinance loan and after availing microfinance loan (at least 6 months after receiving the loan). Table 7 represents the Descriptive statistics result of Household monthly income before & after microfinance.

Table 7: Descriptive Statistics

	N	Range	Minimum	Maximum	Mean	Std. Deviation
Monthly Income Before Microfinance	150	10500	1500	12000	5144.00	3140.245
Monthly Income After Microfinance	150	13000	3000	16000	8408.00	4183.934
Valid N (list wise)	150					

Source: Primary data computed using IBM SPSS Statistics 27.0

Table 8 represents the paired sample t-test results of monthly household income before and after availing microfinance loan. It is observed that the resulting p-value is 0.001 which is less than 0.05. Therefore, we can interpret that there is a significant difference in household monthly income level before and after availing of microfinance.

Table 8: Paired Samples T-Test results

	Paired Differences			t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean			
Monthly Income Before Microfinance - Monthly Income After Microfinance	-3264.000	1717.980	140.272	-23.270	149	.001

Source: Primary data computed using IBM SPSS Statistics 27.0

Summary of the findings & Conclusion

The main aim of the present study is to know the impact of microfinance on the income level of the beneficiaries and to identify the socio-economic status of the beneficiaries. The study is conducted based on five selected villages of Cachar district, Assam. To understand the income of the beneficiaries, we considered their household monthly income level. To identify the impact of microfinance on the income level of the beneficiaries, we compared household monthly income before taking a microfinance loan and at least 6 months after taking a microfinance loan. The comparison or analysis is conducted using paired samples t-test in IBM SPSS software (version 27.0).

The present study found that the majority of the beneficiaries are under the age group of 26 to 35 years and most of them are female. The majority of the beneficiaries have studied up to the High School level of education. Majority of the beneficiaries are married and they have a family size of 3 to 5 members, staying in their own house. Most of them are engaged in agricultural activities and their household monthly income is between Rs. 7,001 to Rs. 10,000. The study also found that there is a significant difference in household monthly income levels before and after taking a microfinance loan. Therefore, it can be concluded that there is a positive impact of microfinance on the income level of the beneficiaries.

The study has several limitations. It is geographically confined to the Cachar district of Assam, which limits the generalizability of the findings to other regions. The sample size of 150 respondents, selected through purposive and convenience sampling, may introduce selection bias and might not fully capture the diversity of experiences among all microfinance beneficiaries. Data collection relies on self-reported information, which can be subject to recall bias and inaccuracies. The study measures the impact over a short term (at least six months after loan receipt), potentially overlooking long-term effects. It focuses primarily on income levels and socio-economic status, excluding other relevant factors such as quality of life, health, and education. External influences like economic fluctuations and policy changes are not accounted for, and the data collection period might miss seasonal income variations, particularly in an agrarian setting.

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