

IMPACT OF MICRO CREDIT ON LIVELIHOOD OF  
RURAL POOR, A STUDY ON THE MICRO CREDIT  
BENEFICIARIES IN RURAL KAMRUP DISTRICT OF  
ASSAM



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**ABSTRACT**

Micro Credit facilities have become revolutionary in bringing positive changes to the life of poor people in many developing countries. Being an important aspect of the microfinance activities, micro credit has been able to provide respite to the millions of poor people who, so far were reeling under financial harassment due to unethical practices of private money lenders.

Again this has proved to be an important step towards mitigating the critical issue of financial exclusion which is plaguing the developing countries like India. Traditionally banks don't provide financial services to people with little or no cash income as it doesn't fit into the profit making mechanism of the banks and also creates high risk proposition for the them. When there is no access to banking services, micro credit offered by MFIs help the poor to fulfill their financial needs and helps to carve a path to come out of poverty.

**KEYWORDS:** Micro Credit, Poor, Livelihood, Empowerment, Health, Education, Asset Creation, Social Awareness.

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**INTRODUCTION**

Micro Credit is defined as provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi urban and urban areas for enabling them to raise their income levels and improve living standards. Micro credit may not have any exact definition, but NBFIs enjoy exemption from RBI regulations if they provide loan up to Rs 50000/- and in case of loan for a dwelling unit up to Rs. 125000/- .

Time and on it has been tried to study, what role does these small amount of money plays in the lives of poor. Poverty alleviation is of course one of the perceived impact resulted by these micro credit facilities, others being enhancing employment opportunities, education and health facilities and above all empowerment of the society. But considering the meager nature of the loan and also the possibility of getting it mixed with other

sources of income in the household really makes it difficult to assess the impact of micro credit on independently.

### **OBJECTIVE**

This study was conducted in order to identify few possible attributes in the domain of livelihood to study the impact of micro credit on the life of rural poor and to see how these attributes or parameters are impacted by the micro credit. Study was carried out for around 400 beneficiaries in the operational area of a microfinance institute working primarily in Kamrup District (Rural). Broader objective is to do a real time assessment of the micro credit facilities in order to check the usability which would be helpful in future design of micro credit products as well to create policy framework around the sector.

### **IDENTIFIED ATTRIBUTES FOR MICROCREDIT IMPACT STUDY**

Amount of loan available under the micro credit ranges somewhere between Rs. 10000.00 to 50000.00 depending upon the cycle of the loan. Looking at the entrepreneurial context, this amount might not have any huge impact; still it can substantiate the ongoing entrepreneurial activity taken up by people. Small amount of loan provided under micro credit facilities might be helpful for the families to increase their immediate consumption, but that's not the sole objective behind propagating the entire micro credit process. There are many other social and economic parameters other than increase in consumption or income which are as follows - enhancement of nutritional prospects, health, education, asset creation, social awareness, livelihood diversification and empowerment etc. Infact the bigger objective of micro credit is to provide a scope to the poor to obtain a sustainable way of livelihood.

Even though few possible attributes have been identified, it becomes difficult to study the actual impact of micro credit owing to interplay of different external factors like accessibility and market conditions, environmental factors, security, law and order of the regions, social sanctions, behavioral traits, customs and cultural aspects, Government schemes etc. For example creation of

asset by a family may be impacted by individual saving of the family, their entrepreneurial skill and dexterity etc along with the amount received in the form of micro credit. Owing to this complexity, realistic way to conduct the impact study would be to see whether that asset could be created without the assistance received from micro finance loan or if yes, would it have been the same.

For the purpose of this study, attributes to assess the impact of micro credit were identified after having discussion with different stakeholders like the client, executives of head office and branch office of MFIs, field staff, bank personnel, academicians and MF practitioners etc.

Identified attributes are classified into four broad categories, which are

1. Strengthening of the livelihood  
Under this parameter, attributes to be studied are
  - a. Income level of households
  - b. Income generating activities
  - c. Expansion of existing livelihood activities
  - d. Diversification of existing livelihood activities
2. Asset creation or status of asset base
3. Savings Status and behavior
4. Social Indicators

### **RESEARCH METHODOLOGY**

This study was conducted for 400 micro credit beneficiaries residing in Kamrup Rural District of Assam.

For primary data collection three methods were used

1. **Observation:** Where field visits were made to understand the operations of the MFIs and through direct observation, information was collected from relevant people to study the prevailing conditions of the MFIs
2. **Informal interviews:** Here interaction was done with the clients to understand the qualitative aspects of microcredit. Informal conversations were done with several personnel at the head office, branch officials, field staffs and

microfinance clients at the collection centre and in-depth discussions with individual clients were done through house visits.

**3. Semi structured questionnaire:**

A set of questions was prepared to gather information from the beneficiaries, The survey data has been analyzed using the following statistical tests.

- ▲ Software package used - Stata/SE 11.0
- ▲ Sample size - 400 clients
- ▲ Assumption - Confidence interval(1- ) = 95%
- ▲ Notations used - Cli\_sin

Less than or equal to 2	Cat 1
Greater than 2 but less than or equal to 4	Cat 2
Greater than 4	Cat 3

Mon\_inc

Less than 5000	A
Between 5000 and 10000 (5000 inclusive)	B
Between 10000 and 15000 (10000 inclusive)	C
More than 150000	D

**FINDING AND ANALYSIS OF THE STUDY**

Strengthening Livelihood:

**1. Income Level of the Household:-**

When MFIs provide loan to the beneficiaries it is considered that the loan amount would be used in livelihood activities. It is expected that there would be some visible improvement in the income level of the household, scaling up of current livelihood activities or diversifying into new livelihood opportunities

In this study question was asked about whether clients have experienced any increase or decrease in the income after getting the loan and if yes by how much.

**Hypothesis testing:-**

Hypothesis 0: MF loan does not affect the household monthly income

Hypothesis 1: MF loan affects the household monthly income

**Statistical test:-**

**tab cli\_sin mon\_inc, chi2**

Cli_Sin	Mon_Inc				Total
	A	B	C	D	
Cat 1	128	82	14	6	230
Cat 2	70	48	10	3	131
Cat 3	16	19	2	2	39
Total	214	149	26	11	400

Pearson chi2(6) = 4.2330 Pr = 0.645

Since Pr=.645>.050, H<sub>0</sub> got accepted. This table is trying to assess the monthly income of the client since her becoming a client member and the conclusion says there is no sufficient evidence that MF loan and the household income are related at significance level of 5%.

**2.Income Generating Activities:-**

Clients approach microfinance agencies for either starting a livelihood activity such as spinning, weaving, livestock rearing etc. or to invest in already existing income generating activities so as to expand their business and make it sustainable. In the questionnaire, one question was framed to understand the impact of micro credit on expansion of income generating activities or involvement of additional family members in the

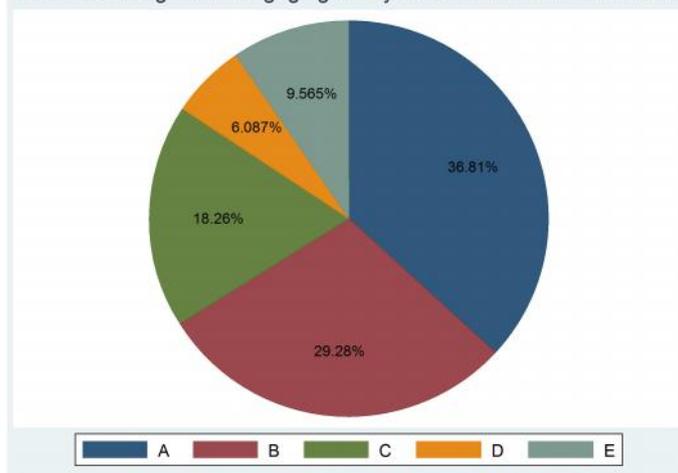
activity. Client were given five choices A,B,C,D,E Following is the graphical representation of the overall responses made by the clients for this question

Strongly agree	A
Somewhat agree	B
Neither agree nor disagree	C
Somewhat disagree	D
Strongly disagree	E

This pie chart no. 1 shows the progress in engaging family member in income generating activities due to MF Loan. Significant majority of the clients agree that MF loan has led to progress in engaging a family member in Income generating activity



Pie chart 1: Progress in engaging family member in IGA due to MF loan

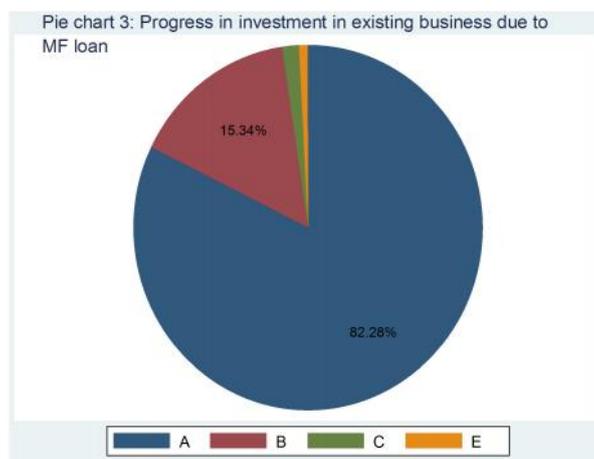


### 3. Expansion of existing livelihood activities:-

This is another attribute which can be captured to study the microfinance impact. As borrowers with existing business invest the loan for the same, one can observe the extent to which the business has expanded over the years i.e. before taking the loans and aftermath. This can be checked by looking into the volume of investment put in the enterprise, the returns/ profit earned, size of the institution etc. For instance if one customer has started a shop with the micro credit, it is prudent

to see, whether MF loan has helped her to expand the size of the shop by way of new investment etc. One question was framed to understand the impact of microcredit on this attribute of livelihood. Response received from clients have been graphically presented as follows

This pie chart represents the progress in investment in the existing business due to Microfinance loan. The conclusion is that significant majority of the clients strongly agree that MF loan has improved the investment in existing business.



### 4. Diversification of Livelihood Activities:-

Diversification of livelihood activities can be captured over a period of years as the client is involved in continuous borrowing and repayment. Especially for rural areas, diversification of livelihood is said to largely reduce risk among the households as people from rural areas are mostly vulnerable compared to urban counterparts.

For instance a client may initially borrow for piggery and over the period may slowly start dairy or poultry farm or even open a small shop etc. Diversification of livelihood also entails economic stability of households as they are able to venture into new areas over the period of time through borrowing.

For this parameter the following hypotheses was proposed

H0: MF loan does not affect the number of occupations in the household

H1: MF loan affects the number of occupations in the household

**Statistical test**

cli_sin	0	No_Occ 1	2	3	Total
Cat 1	1	96	120	13	230
Cat 2	0	63	61	6	131
Cat 3	1	17	15	5	39
Total	2	176	196	24	400

cli_sin	No_Occ 4	Total
Cat 1	0	230
Cat 2	1	131
Cat 3	1	39
Total	2	400

Pearson chi2(8) = 14.4454 Pr = 0.071

Since Pr=0.071>.050, accept the H<sub>0</sub>

This table shows the relation between the numbers of occupation at the Household level since the member became a client of the Microfinance institution with the conclusion that there is no sufficient evidence that MF loan affects the number of occupations in the household at significance level of 5%.

Analysis of the data with statistical tools reveals that micro credit is critically linked with different attributes of livelihoods of poor. In due course of time income of families might get increased but it might happen due to the interplay of many other factors where loan from microfinance might have minimal role. It is difficult to study the impact of only micro credit on income in controlled manner as other external factors are actively working. Statistical test showed no evidence of micro credit impacting the income of the household. However it was clearly observed that beneficiaries don't keep accurate account of income earned from the activities, hence it becomes difficult for them to identify any part of their income resulting from micro credits.

However engaging family members in the livelihood activities have got impacted positively by micro credit as revealed from the responses. This could be one of the positive features of micro credit which implies employment generating capability. It may be due to the expansion or diversification of activities leading to creation of engagement

opportunities. But it needs to be studied whether these engagements are actually doing value addition to the activity or they are adding up to the issue of disguise unemployment.

This study strongly reveals that Micro credit has helped the beneficiaries to expand their ongoing livelihood activities. Small amount of loan are proving beneficial for the people for their need based investment in their current interventions. However it was found that beneficiaries are not diversifying their livelihood options too much even after getting the micro credit amounts. Lack of alternative skill sets, lack of training etc. could be the hindering factors working here

**LIMITATION**

Best result of this kind of impact studies could be achieved when it is carried under controlled conditions. But in practical situation it is difficult to maintain such a controlled condition. This was the prime limitation of this study.

**CONCLUSION**

From the study, conclusion could be drawn that process of micro credit has got further scope to improvise on its existing frame, diversify and develop itself to become a strong catalyzer for sustainable livelihood of poor. It should be linked with other programs which are focused on building the capacity of the poor, so that they can use the micro credit amounts in the best possible manner



on productive activities and also become skilled to keep account of those activities. There is an urgent need to analyze whether existing limits of micro credit amount in different slabs are sufficient enough to provide sustainability and scalability to the activities taken up by the poor. This would help the MFIs to design their products accordingly. This study has focused on the impact of micro credit on the livelihood of poor. Due to limitation of resources, other attributes of impact studies like asset creation, saving-investment patterns empowerment and other social indicators are not taken into account in this study. There is a chance that micro credit

might have got positive impact on these attributes as well and that may be stronger as compared to livelihood attributes, which needs to be studied in local context of Assam.

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