Perceived Impact of Microfinance on Livelihood Improvement in Kaski District of Nepal

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Abstract:

This paper examines the perceived impact of microfinance on livelihood improvement in Kaski district of Nepal. The study is based on a primary survey limited to five MFIs working in rural parts of Kaski district. The impact of microfinance services on people's livelihoods was examined using a descriptive and explanatory research including paired sample t-test, and Wilcoxon signed-rank test. The livelihood status of the clients has been measured in terms of economic (microbusiness creation, income level, saving habits, productive investment, consumption, and capital expenditures) and social condition (educational status, health status, women empowerment, and social networking) of the clients after microfinance intervention. The researcher randomly selected 150 clients involved in microfinance institutions for the last three or more years. Microfinance significantly affects the livelihood and raises standards of living. The study finds a significant impact of microfinance on the livelihood improvement of poor and marginalized people. Microfinance interventions have significantly improved clients' economic condition, including microbusiness creation, income level, saving habits, productive investment, consumption, and capital expenditures. The social conditions, particularly educational status, health status, women empowerment, and social networking of clients, have significantly improved. Microfinance can be useful for fostering economic growth and enhancing the lives of low-income people and communities, even though its efficacy is disputed. The regulatory authority should develop sound financial and social outreach efficiencies of microfinance institutions to ensure both the welfare of clients and the sustainability of micro institutions.

Keywords: livelihood improvement, marginalized people, microfinance institutions, regulatory authority

Introduction:

Microfinance (MF) offers financial services to low-income people with limited access to regular banking services, small loans, savings accounts, and other financial products (Ledgerwood & White, 2006; Matin et al., 2002). It is widely acknowledged as a method for reducing poverty, extending financial inclusion, and enhancing the standard of living (Aghion et al., 2007). Many variables, including the type of microfinance program, the intended beneficiaries, the socio-economic setting, and the evaluation techniques employed, might affect how microfinance is considered to have an impact on improving one's standard of living (Nader, 2008; Rehman et al., 2020). Microfinance institutions (MFIs) can achieve sustainability by balancing their financial and social goals, like eradicating poverty and promoting financial inclusion (Khan, 2011; Rauf & Mahmood, 2009).

Microfinance can improve people's access to credit and financial services (Dhungana, 2013; Hudon & Ashta, 2013; Matin et al., 2002), boost their income (Dhungana, 2018c; Hermes, 2014), strengthen their social networks (Okello et al., 2020; Phan et al., 2020), and sense of empowerment (Bansal & Singh, 2020; Ngo & Wahhaj, 2012; Pal & Gupta, 2022), and make them less vulnerable to shocks and hazards (Amin et al., 2003). For instance, microfinance initiatives could assist small entrepreneurs in growing their enterprises (Boudreaux & Cowen, 2008; Newman et al., 2014), making investments in new assets (Akhter & Cheng, 2020),

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creating employment, generating increased revenue, and transforming livelihood status of poor and marginalized people (Alhassan et al., 2023; Sahu et al., 2021). Having access to credit and savings services may also assist households in dealing with unanticipated costs or emergencies (Babiarz & Robb, 2014; Karlan & Morduch, 2010).

Some researches, however, have addressed issues with the constraints and potential adverse impacts of microfinance, such as excessive debt (Kasoga & Tegambwage, 2021; Khandker et al., 2013; Schicks, 2013), high-interest rates (Caballero-Montes et al., 2021; Khan et al., 2021), and insufficient support for business development (Ferdousi, 2015; Kanayo et al., 2013). A growing number of people are criticizing microcredit (Levin, 2012). The use of exploitative lending practices and usurious interest rates have been said to be utilized by microfinance firms, and some critics even dispute the effectiveness of microfinance in reducing poverty (Hudon & Sandberg, 2013). Some critics contend that microfinance may be ineffective in tackling structural causes of poverty (Elahi & Danopoulos, 2004), such as a lack of infrastructure, skills, or education, and that it may worsen inequality by benefiting those who are more financially savvy and enterprising (Mallick, 2002). Despite some criticism, microfinance significantly improves the standard of living for underprivileged rural people (Chapagain & Dhungana, 2020; Hossain & Knight, 2008; Khan et al., 2021; Waller & Woodworth, 2001).

Ultimately, many variables affect how microfinance is believed to affect improving one's standard of living. Although microfinance may have the capacity to offer financial services and support to the most vulnerable groups (Kabeer, 2005), it is crucial to assess its effectiveness, efficiency, and sustainability carefully and to make sure that it is incorporated into a larger development strategy that addresses the underlying causes of poverty and inequality.

Literature Review:

Over the years, there has been lots of discussion and research on how microfinance is thought to affect the improvement of living conditions. By figuring out ways to efficiently lend money to impoverished households, microfinance aims to fight poverty and strengthen the institutional capacity of financial institutions. Due to a lack of collateral, poor households are often not allowed to use the formal banking system. However, the microfinance movement takes advantage of new organizational and contractual models that lower the risk and expense of making tiny, uncollateralized loans (Morduch, 2000; Waller & Woodworth, 2001). Following are some theories explaining how microcredits are thought to improve people's quality of life:

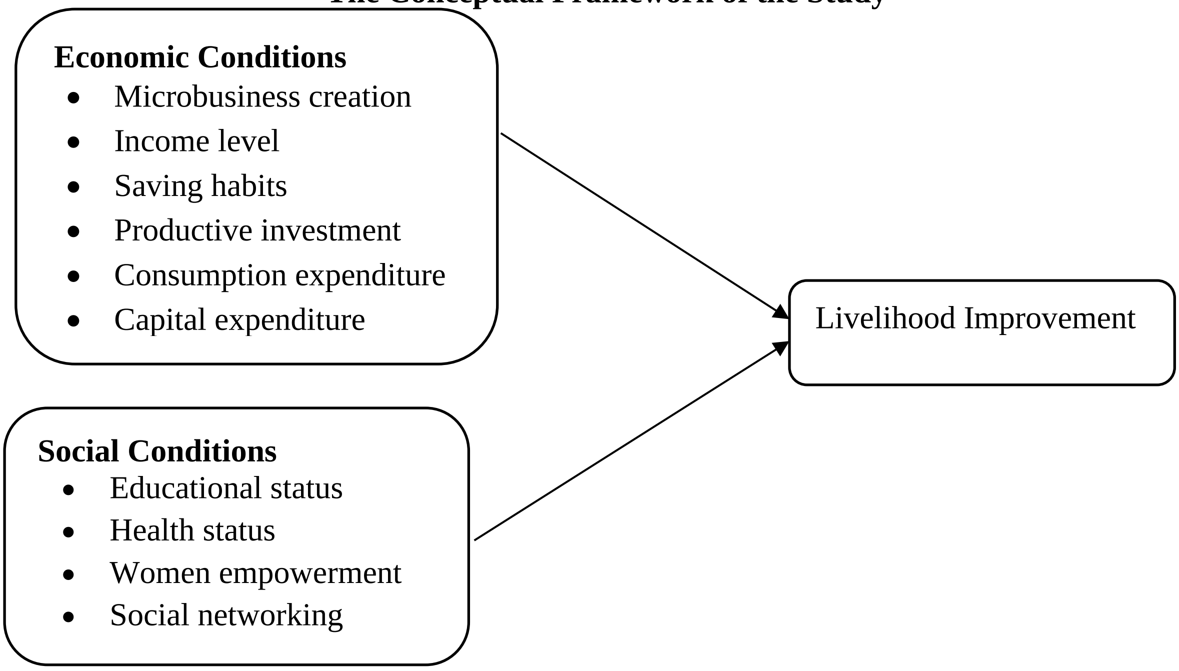
As per the theory of poverty alleviation, microfinance can reduce poverty by giving people who are not eligible for regular banking access to financial services (Mandrawal, 2022; Shukran & Rahman, 2011). Microfinance can help people acquire assets (Hussain & Jullandhry, 2020), boost their income (Hagawe et al., 2023; Santoso et al., 2020), and improve their standard of living by offering lending, savings, and insurance services (Benami & Carter, 2021; Khan et al., 2021).

Financial inclusion theory contends that microfinance can promote financial inclusion by giving low-income people access to formal financial services (Mader, 2018; Ozili, 2018) (Dhungana & Kumar, 2015; Ghosh, 2013; Milana & Ashta, 2020). The ability to save, borrow, and invest allows people to manage risk better, accumulate assets, and enhance their standard of living (Vonderlack & Schreiner, 2002; Zeller & Sharma, 2000). Financial inclusion is crucial because it promotes growth and development (Lopez & Winkler, 2018). MFIs have played a significant role in promoting financial inclusion (Ahmed, 2009). The regulatory body should develop an inclusive financial system to ensure the socio-economic transformation of the poor and marginalized people (Dhungana & Kumar, 2014.; Zauro et al., 2020). The stability of banks and economic expansion are positively and considerably impacted by financial inclusion (Yakubu & Musah, 2022).

According to empowerment theory, microfinance give people more power by giving them access to the resources they need to take charge of their own lives and make their own decisions (Kabeer, 2005). Borrowers' increased self-assurance, self-worth, and sense of empowerment can result in better lives and more social and economic mobility (Memon & Seaman, 2021). The enabling process of empowerment impacts task behaviour's commencement and persistence (Conger & Kanungo, 1988). In the economic and social work fields, where it is regarded as a practical tool for women's empowerment, the effectiveness of microfinance has been a critical issue in recent years (Ali & Hatta, 2012; Khursheed et al., 2021). Microfinance can be especially helpful in empowering women, who frequently have little access to financial services and are marginalized in many communities (Dhungana, 2017.; Kabeer, 2005; Ranabahu & Tanima, 2021).

Microfinance access is a significant strategy for economic enhancement (Samineni & Ramesh, 2020). Microcredit increases the amount and quality of social networks in rural households (Phan et al., 2020). Microfinance raised women's involvement in household decision-making (Bansal & Singh, 2020). Microfinance intervention benefits from occupational status, income level, consumption, capital expenditure, and saving practices (Dhungana et al., 2022). Microfinance has improved customers' lives, strengthened the capacity of impoverished people to better their circumstances, and other reports suggest that poor people have taken advantage of higher wages to increase their consumption, improve their health, and accumulate assets (Al-Shami et al., 2014; Ribeiro et al., 2022).

Figure 1
The Conceptual Framework of the Study



Microfinance initiatives have improved household and enterprise incomes (Bawa & Opoku, 2023; Hartarska & Nadolnyak, 2008), increased enterprise activity within households (Akhter & Cheng, 2020; Dhungana & Ranabhat, 2022; Mahmood et al., 2014), increased employment opportunities for the poor in non-farm enterprises (Agyapong et al., 2017; Chowdhury, 2017), empowered women (Akhter & Cheng, 2020; Aoki & Pradhan, 2022; Garikipati et al., 2017), and increased community accessibility of other financial services (Burkett, 2007; Dhungana, 2012), all of which have been shown to reduce poverty and vulnerability (Ranabahu & Tanima, 2021; Spiegel, 2012; Tasos et al., 2020). A microcredit program supports marginalized people's livelihoods and encourages employment (Sahu et al., 2021).

Based on the above literature, the livelihood status of the clients has been measured in terms of economic and social conditions (Chirkos, 2014; Hossain, 2012). The economic condition includes microbusiness creation, income level, saving habits, productive investment, consumption, and capital expenditures (Dhungana et al., 2022; Karlan & Morduch, 2010; Matin et al., 2002). The social condition includes educational status, health status, women empowerment, and social networking (Anderson et al., 2002; Sahu et al., 2021). The conceptual framework of the study has been presented in Figure 1.

Materials and Methods:

This study examines the perceived impact of microfinance services on livelihood improvement concerning MFIs of Kaski district, Nepal. The effect of microfinance services on the development of people's livelihoods was examined using a descriptive and explanatory research approach. The study is based on a primary survey of 150 clients selected from the five MFIs (NESDO, Chimmek, Muktinath, Nirdhan, and Grameen Bikas Laghubitta) working in a rural part of the Kaski district. The researcher has delimited this study to five MFIs working in Kaski district who have been getting MF services for the last three and more years. The structured questionnaires were administered to collect the data before and after MF intervention with a single interview. The descriptive statistics, paired sample t-test, and Wilcoxon signed-rank test were used to analyze the data for a conclusion. The key limitations of this study are the lack of a control group, a small sample size, the chance of recall bias, and limited geographic coverage.

The following hypotheses have been formulated to examine the perceived impact of microfinance services on livelihood improvement:

H_1: There is a significant impact of microfinance on the economic conditions of clients.

H_2: There is a significant impact of microfinance on the social conditions of clients.

Results and Discussion:

Demographic Profile of Respondents:

The demographic profile of respondents includes household head, age, education, marital status, ethnic group, number of children, involvement in MFIs, and occupation. The demographic profile of the respondents is shown in Table 1.

Table 1
Demographic Profile of the Respondents

Factors	Demographic variables	Frequency	Percentage
Household head	Male	37	24.7
	Female	113	75.3
Age	Below 30 years	11	7.3
	31-50 years	87	58.0
	50 years above	52	34.7
Education	Illiterate	42	28.0

	Up to intermediate	99	66.0
	Bachelor and above	9	6.0
Marital status	Single	9	6.0
	Married	123	82.0
	Divorced	6	4.0
	Widow	12	8.0
Ethnic group	A & J	29	19.3
	BCO	55	36.7
	Dalit	66	44.0
Number of children	One	18	12.0
	Two	75	50.0
	More than two	57	38.0
Involvement in MFIs	Three to five years	65	43.3
	More than five years	85	56.7
Occupation	Agriculture and livestock	37	24.7
	Microbusinesses	92	61.3
	Others	21	14.0
	Total	**150**	**100**

Source: Calculation based on the survey, 2022.
Note: *J & A refers to the ethnic community (Janajati and Adhibasi), BCO refers to the upper caste (Brahaman, Chhetri, and others), and Dalit refers to a lower caste.*

Table 1 shows that the majority of the respondent's household heads are female (75.3%), aged between 31 to 50 years (58.0%%), have education up to intermediate level (66.0%), more than five years of involvement in MFIs (56.7%), and involved in microbusiness occupation (61.3%). Most respondents are married (82.0%) and have two children (50.0%).

Microfinance-Related Profile of Respondents:

The microfinance-related profile of respondents includes having a bank account, microcredit support for transformation, a loan taken, the total loan amount, and the purpose of microcredit. The microfinance-related profile of the respondents is shown in Table 2.

Table 2

Microfinance-related Profile of Respondents

MF factors	Variables	Frequency	Percentage
Having bank account	Yes	138	92.0
	No	12	8.0
Microcredit support for transformation	Yes	144	96.0
	No	6	4.0
Loan taken	One to two times	14	9.3

	Three to four times	67	46.7
	More than four times	69	46.0
Total loan taken amount (Rs)	Below 500,000	100	66.7
	500,000 to 1000,000	48	32.0
	Above 1000,000	2	1.3
Purpose of microcredit	Agriculture and livestock	46	30.7
	Microbusiness	62	41.3
	Household and others	6	4.0
	Education	15	10.0
	Foreign employment	21	14.0
	Total	**150**	**100**

Source: Calculation based on the survey, 2022.
Note: *1 USD = Rs 132.87 as of February 2023 (Nepal Rastra Bank)*

Most clients have a bank account (92.0%) and perceived microcredit has supported transformation (96.0%) after involvement in MFIs. The majority of clients have taken loans for agriculture and livestock (30.7%) and microbusinesses (41.3%). Most clients (92.7%) have taken more than two times, and most (66.7%) have taken loans below Rs 500,000.

Perceived Impact of Microfinance on Economic Transformation:

The perceived impact of microfinance on the economic transformation of respondents includes changes in micro-business creation, income level, saving habits, productive investment, consumption, and capital expenditures. The perceived impact of microfinance on the economic transformation of the respondents is shown in Table 3.

Table 3
Perceived Impact of Microfinance on the Economic Transformation of Respondents

Before Joining MFI		**Parameters**	**After Joining MFI**		**The percentage Increased After Joining**
Low %	**High %**	**Economic variables**	**Low %**	**High %**	**%**
76.8	23.2	Microbusiness creation	22.6	77.4	54.2
86.4	13.6	Income level	7.3	92.7	79.1
83.7	16.3	Saving habits	4.8	95.2	78.9
87.0	13.0	Productive investment	14.7	85.3	72.3
78.6	21.4	Consumption expenditure	16.8	83.2	61.8
85.3	14.7	Capital expenditure	32.0	68.0	53.3

Source: Calculation based on the survey, 2022.

Table 3 shows the positive impact of microfinance on the economic transformation of respondents on microbusiness creation, income level, saving habits, productive investment, consumption, and capital expenditures (Dhungana & Chapagain, 2020.; Maganga, 2021). The effectiveness of microfinance programs in reducing poverty and vulnerability has been attributed to their ability to increase capital/asset formation at the household level, improve household and enterprise incomes, improve risk management skills among individuals and households, increase enterprise activity within households, increase employment opportunities for the poor, and increase community access to other financial services (Mosley & Rock, 2004; Sivachithappa, 2013).

Perceived Impact of Microfinance on Social Transformation:

The perceived impact of microfinance on the social transformation of respondents includes changes in educational status, health status, women empowerment, and social networking. The perceived impact of microfinance on the social transformation of the respondents is shown in Table 4.

Table 4
Perceived Impact of Microfinance on Social Transformation of Respondents

Before Joining MFI		Parameters	After Joining MFI		Percentage Increased After Joining
Low %	**High %**	**Social variables**	**Low %**	**High %**	**%**
76.0	24.0	Education status	16.7	83.3	59.3
83.3	16.7	Health status	14.0	86.0	69.3
81.4	18.6	Women empowerment	8.5	91.5	72.9
94.6	5.4	Social networking	3.8	96.2	90.8

Source: Calculation based on the survey, 2022.

The study finds a positive impact of microfinance on the educational status, health status, women empowerment, and social networking of the client after microfinance intervention (Aruna & Jyothirmayi, 2011; Hansen, 2015). The likelihood that borrowers' welfare will increase after obtaining microcredit is significantly influenced by the purpose of the loan, monthly income, monthly expenses, interest rates, loan size, education, and marital status (Santoso et al., 2020).

Inferential Test on Perceived Impact of Microfinance on Livelihood Improvement:

The perceived impact of microfinance on livelihood improvement has been examined with the help of paired sample t-test, and Wilcoxon signed rank test. Al, the assumptions of the parametric test were checked and validated. The social and economic transformation of respondents was measured under livelihood improvement. The inferential test on the perceived impact of microfinance on the livelihood improvement of the respondents is shown in Table 5.

Table 5
Inferential Test on the Perceived Impact of Microfinance on Livelihood Improvement

Description	Mean	T-value	P-value	H_1
Economic Conditions				
Microbusiness creation	---	-9.695*	0.000	Accepted
Income level	0.947	51.427	0.000	Accepted
Savings	0.932	50.834	0.000	Accepted
Productive investment	0.627	15.815	0.000	Accepted

Consumption expenditure	0.920	41.394	0.000	Accepted
Capital expenditure	0.747	20.956	0.000	Accepted
Social Conditions				
Educational expenditure	0.693	16.014	0.000	Accepted
Health expenditure	0.913	39.626	0.000	Accepted
Women empowerment	---	-11.832*	0.000	Accepted
Social networking	---	-11.749*	0.000	Accepted

Source: Calculation based on the survey, 2022.
Note: N = 150 and df = 149
** It denotes Wilcoxon signed rank test.*

Table 5 shows the result of an inferential test on the perceived impact of microfinance on the livelihood improvement of the clients. Livelihood improvement includes positive changes in the economic and social conditions of the clients after involvement in MFIs.

$\mathbf{H_1}$**:** There is a significant impact of microfinance on the economic conditions of clients.

The results presented in Table 5 show that the economic condition of clients after microfinance intervention has significantly improved economic conditions of clients (Bhatt & Tang, 2001; Dhungana, 2018b; Korth et al., 2012) such as microbusiness creation (Alhassan et al., 2022; Tahmasebi & Askaribezayeh, 2021), income level (Amarnani & Amarnani, 2015; Dhungana, 2018a; Kapila & Kalia, 2022), saving habits (Chomen, 2021; Aruna & Jyothirmayi, 2011), productive investment (Bhatt & Tang, 2001; Dhungana, 2015; Korth et al., 2012), consumption, and capital expenditures (Dhungana & Chapagain, 2019; Parwez & Patel, 2022; Raghunathan et al., 2022).

$\mathbf{H_2}$**:** There is a significant impact of microfinance on the social conditions of clients.

The above results ensure that the social conditions of clients after microfinance intervention have been significantly improved (Hansen, 2015; Morduch, 2000) in terms of educational status (Hagan et al., 2012; Tasos et al., 2020), health status (Dhungana et al., 2016; Fernando et al., 2022; Pronyk et al., 2007), women empowerment (Ali & Hatta, 2012; Lamichhane, 2020), and social networking (Maman et al., 2020; Phan et al., 2020).

Conclusion and Recommendation:

Microfinance intervention is a crucial element of a development plan to integrate the underprivileged. Microfinance services are effective tools to improve their living standards by giving them access to credit and financial services and non-financial services like training and education. Microfinance significantly affects the livelihood and raises standards of living. The study finds a significant impact of microfinance on the livelihood improvement of poor and marginalized people. Microfinance interventions have significantly improved the economic condition of clients, including microbusiness creation, income level, saving habits, productive investment, consumption, and capital expenditures. The social conditions, particularly educational status, health status, women empowerment, and clients' social networking, have significantly improved.

Microfinance institutions can enhance the livelihoods of poor and marginalized people by boosting income and economic activity, enhancing money management abilities, empowering women, enhancing access to essential services, and boosting social capital. Microfinance can be useful for fostering economic growth and enhancing the lives of low-income people and communities, even though its efficacy is disputed. The regulatory institutions should develop sound financial and social outreach efficiencies of microfinance institutions to ensure both the welfare of clients and the sustainability of micro institutions.

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