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IMPACT OF MICROCREDIT ON FINANCIAL WELL-BEING OF POOR HOUSEHOLDS

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Abstract: *Purpose:* The current study aims at assessing the impact of microcredit on financial well-being of poor households. *Design/methodology/approach:* Primary data were collected from 510 microcredit beneficiaries of different microfinance institutions functioning in Jammu region of Union Territory of Jammu and Kashmir. Various multivariate statistical techniques like EFA, CFA and SEM were used for the analysis of data and purification of scale. *Findings:* The finding of the study reveals that microcredit has a direct and significant impact on financial well-being of poor households. Further, it is found that in-spite of various steps taken by the government for improving the financial well-being of poor households; still there is a dissent from the financial institutions to offer various adequate financial services to the poor. *Originality/ value:* The study provides valuable suggestions for the policy makers to develop and put into practice programmes with the intention of improving the financial well-being of poor households by offering microcredit services. *Limitations:* The scope of the study is restricted to Jammu region only due time financial constraints. The data were collected from customers belonging to rural areas only. Third, the possibility of subjectivity in some cases cannot be ruled out.

Keywords: Microcredit, financial well-being, households, EFA, financial institutions.

INTRODUCTION

The concept of micro financial services such as microcredit, micro saving, micro insurance has been introduced for the underprivileged section of the society so that they can easily access formal financial services which will help them to improve their financial well-being. Microcredit has developed as a crucial strategy to fight against socio-economic exclusion, encourage self-employment and promote entrepreneurship (Ruesta & Benaglio, 2020). It is considered as a provision of credit and other financial services to the poor people who are deprived of accessing financial services (Hussain, 2019 & Dowla, 2018). Microcredit provides a purposeful way for generating income, enhancing food security, alleviating poverty and empowering women to promote economic development (Roodman & Moduch, 2014). Microcredit as a component of microfinance services is recognised to be a combination of credit and other non-financial services offered to those individuals who are deprived of accessing financial services (Ruesta & Benaglio, 2020). It offers various ways for achieving income generation activities which are necessary to secure working capital or a credit to support the underprivileged section of the society when they need assistance (Akhter & Cheng, 2020). Microcredit as a device which helps to bridge the gap between the availability of microfinance services among poor people and sustainable economic growth, introducing the concept of "sustainability of empowerment". MFIs and banks offered microcredit services as an ingredient of their corporate social responsibility actions and as a kind of commercial activity (Ruesta & Benaglio, 2020; Akhter & Cheng, 2020). The main goal of microfinance institutions is to provide microcredit and other financial services to deprived section of the society which help them to come out of poverty and improve their living standard (Alshebami & Khandare, 2015; Cheema & Parkash, 2018).

LITERATURE REVIEW

In order to promote inclusive growth, microfinance institutions plays an important role by offering micro financial services such as microcredit, micro savings etc. to the disadvantaged section of the society. Microcredit is crucial for improving the living standard of poor and other weaker sections of the society.

Since its birth in 1970s, microcredit has been rising quickly with the objective to alleviate poverty, encourage economic development and improving the financial well-being of poor households. Poverty alleviation, which is most important object among 17 sustainable Development goals, attracts the interest of every country, especially the developing countries (Thanh *et. al.,* 2019). No society even in developed countries can be finding without poverty. The availability of credit is recognised as an important tool for the underprivileged section of the society to safeguard their food security and poverty. Traditional banks and financial institutions fail to meet the requirement of poor people. Microfinance institutions (MFIs) change by constructing a set of comprehensive financial institutions that has raised the anticipation that plentiful poverty can be reduced (Lal, 2021; Debnath *et. al.* 2019). Assefa *et al.*, (2013) stated that microfinance institutions are recognised as a vital financial institution which allows underprivileged section of the society to take the benefit of financial services from formal financial institutions. Microfinance programmes have been exalted as a strategy lever to encourage entrepreneurial activities and to reduce poverty & financial exclusion (Young & Grinsfelder, 2011; Lal, 2018; Hussain *et. al,* 2019). The main aim of microfinance institutions is to allow the disadvantaged section of the society to access reasonable financial services by lessening their working cost and attain financial sustainability for development (Rahman *et al.*, 2017). Microcredit considers as an important instrument for generating income, reducing poverty, empowering women and human resource growth (Lal, 2022; Kessey, 2005). Microcredit is intended as a collateral-free credit services and recognised to increase the accessibility of formal credit to the poor people. (Thanh *et al.* 2019; Khandker, 1998; Khandker & Koolwal, 2015; Li, Gan, & Hu, 2011; Mahjabeen, 2008; Yunus, 2003).

The present study is undertaken to assess the impact of microcredit on financial well-being of poor households. After reviewing extant literature relating to microcredit, no systematic and empirical study has been found on the aforesaid topic. Most of the studies reviewed are theoretical in nature and few of them have been based on secondary information. The aforesaid gap in the existing literature necessitated the current work which shall prove to be an asset for the policy makers, researchers and academicians both at the national and international level. As a result, these reviews present information about the micro financial services which would provide considerable help in measuring the impact of microcredit on financial well-being of poor households.

OBJECTIVES OF THE STUDY

The present study is based on the following objectives:

1. To assess the impact of microcredit on financial well-being of poor households.
2. To offer suggestions to policy makers to bring poor people in the domain of microfinance institutions.

HYPOTHESIS

The present study is based on the following hypothesis:

H0: Access to microcredit has direct impact on financial well-being of poor households. .

DATA COLLECTION

Primary data were collected from 510 micro credit beneficieries of microfinance institutions operating in Jammu region of Union Territory of Jammu and Kashmir through structure questionnaire. Purposive sampling technique was adopted in collecting the data.

RESEARCH METHODS

Statistical techniques like Exploratory Factor Analysis (EFA), Confirmatory factor analysis (CFA) and Structural Equation Modeling (SEM) are used for data analysis and purification of scale items.

RESULTS AND DISCUSSION

Output from Factor Analysis with Regard to Financial Well-Being

Regarding financial well-being, the KMO value stood at .863 and Barlett's value at 1673.082. Out of 15 statements which were actually kept in the construct of financial well-being, the Principal Component Analysis along with Varimax Rotation brought it to the level of 11 statements and resulted into three factor solution with 59.121 % of the total variance explained (Table 1). The factor loadings range from 0.535 to 0.834 and communalities from 0.523 to 0.725 (Table 2).

Table 1: Output from factor analysis with regard to factor extraction*

Rounds	*Variance explained*	*Items emerged*	*No. of factors extracted*	*Iterations*	*No. of items deleted*	*Kmo*	*Bartlett test of sphercity*
1	51.632	15	5	14	3	.895	1866.712
2	54.292	12	4	12	1	.872	1796.658
3	59.121	11	3	14	-	.863	1673.082

**source:* Data analysis

A brief description of factors emerged is as under:

Factor 1: Basic needs

This factor encompasses five items namely, 'You frequently purchase basic goods', 'Members of your family are educated after accessing microcredit, 'Microcredit improves sanitation facility at your home', 'Household head is educated enough to guide other members to move on right track' and 'Overall, Microcredit has reduced the level of poverty'. The mean value of this factor ranges from 3.83 to 3.98, factor loadings between .553 to .794 and communalities from .523 to .659. This factor acknowledged that increased level of education, frequency of purchase and improved sanitation facility are the significant indicators of financial well-being.

Factor 2: Living standard

This factor consists of four items namely, 'Family crises are reduced through better living standard', 'Your consumption level has increased', 'Your expenditure on luxuries has increased' and 'Your expenditure on clothing has increased'. The mean value of this factor varied from 3.02 to 3.91, factor loadings between .535 to .834 and communalities from .565 to .729. This factor connotes that increased consumption level, increased expenditure on clothing & luxuries are the signs of better living standard.

Factor 3: Health and food

This factor contains only two items namely, 'Health has improved by consuming better quality food' and 'You consume better quality food than before' with significant mean value 3.90 & 3.94, factor loadings .565 & .723 and communalities .523 & .568. This factor acknowledged that with the help of microfinance services, health and nutrition status of the poor people has improved significantly.

Reliability

Three factors were obtained after purification of scale items falling within the domain of financial well-being. It is found that the Cronbach's reliability coefficient for all the 11 items underlying three factors ranges from .521 to .711. The alpha reliability coefficients for F1:Basic needs (.601), F2= Living standard (.711) and F3: Health & Food (.521), which is more than the minimum accepted level of 0.50 as recommended by Brown *et al.* (2001) & Kakati and Dhar (2002), thereby obtaining satisfactory internal consistency. The adequacy and reliability of sample size to yield distinct and reliable factors is further demonstrated through Kaiser-Meyer-Olkin measure of sampling adequacy that is .863 and all factor loadings are greater than 0.50.

Validity

Three factors obtained alpha reliability higher or equal to 0.50 and satisfactory KMO value at .863, which shows significant construct validity of the construct (Hair *et al.*, 2009).

CFA MODEL FOR FINANCIAL WELL-BEING

Figure 1 indicates second order CFA is performed on financial well-being construct. EFA on financial well-being consists of three factors namely, basic needs, living standard and health & food. While running CFA, one factor namely, health and food got deleted as its regression weight was below .50. The CFA results depicts that the model fits the data, CMIN/DF=2.608, RMR=.048 GFI=.986, AGFI=.973, CFI=.940, TLI=.963, RMSEA=.027. The model has been found to be valid and reliable. The alpha value is .727, whereas composite reliability is .945 which shows that all items are reliable. The model has been proved valid, as AVE came out to be .617. it is found that the factor 'Living standard' contributes highest towards financial well-being, as its regression weight is .93 (Fig. 1).

STRUCTURAL EQUATION MODELING (SEM)

For testing the proposed hypotheses, structural equation modeling technique (SEM) is applied by using AMOS 16.0 version (Figure 2). The result reveals that the model fit

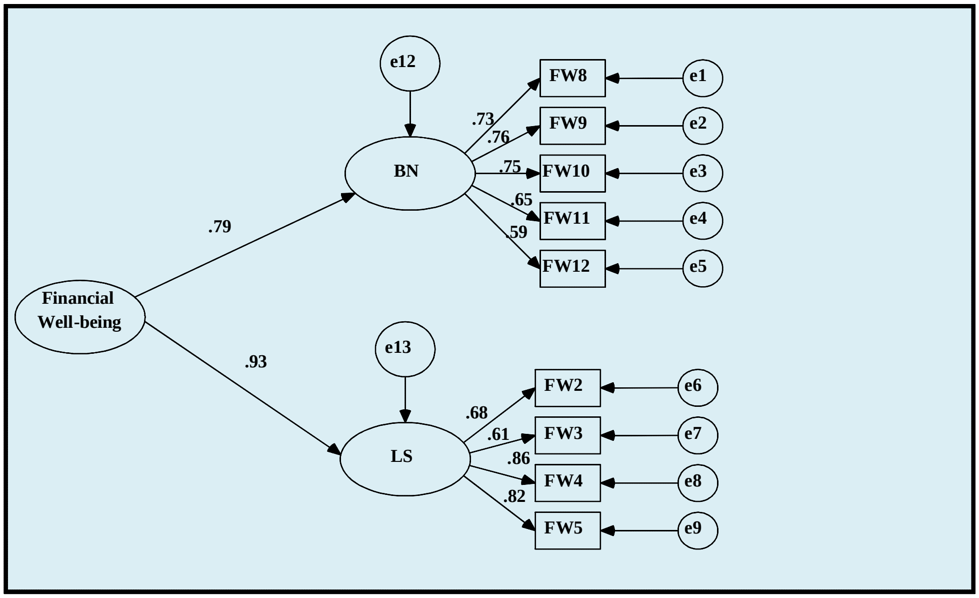

Figure 1: CFA Model for Financial Well-Being*

**Source:* Data analysis

Note: BN=Basic needs, LS=Living standard; FW8= Members of your family are educated after accessing Microcredit, FW9= Household head is educated enough to guide other members to move on right track, FW10= You frequently purchase basic goods, FW11= Microcredit improves sanitation facility at your home, FW12= Overall, Microcredit has reduced the level of poverty, FW2= Your expenditure on clothing has increased, FW3= Your expenditure on luxuries has increased, FW4= Your consumption level has increased, FW5= Family crises are reduced through better living standard and e1-e13 are the error terms.

the data excellently (CMIN/DF=2.624, RMSEA=.056, GFI=.987, AGFI=.964, CFI=.945, NFI=.927 and TLI=.939, Table 4.50).

HYPOTHESES TESTING

SEM results shows that microcredit has significant relation with financial well-being (ß=.66, p<0.01). Therefore, hypothesis '***Microcredit has direct and significant impact on financial well-being***' stands accepted. Samer *et* al. (2015) support the notion that microfinance have proved as a potential mechanism for building financial well-being of poor households which leads to several benefits such as overcoming problem of poverty, inequality and unemployment. Another study conducted by Imtiaz *et al.* (2014) also pointed that microcredit helps the deprived section of the society directly to come out of the clutches of poverty and inequality.

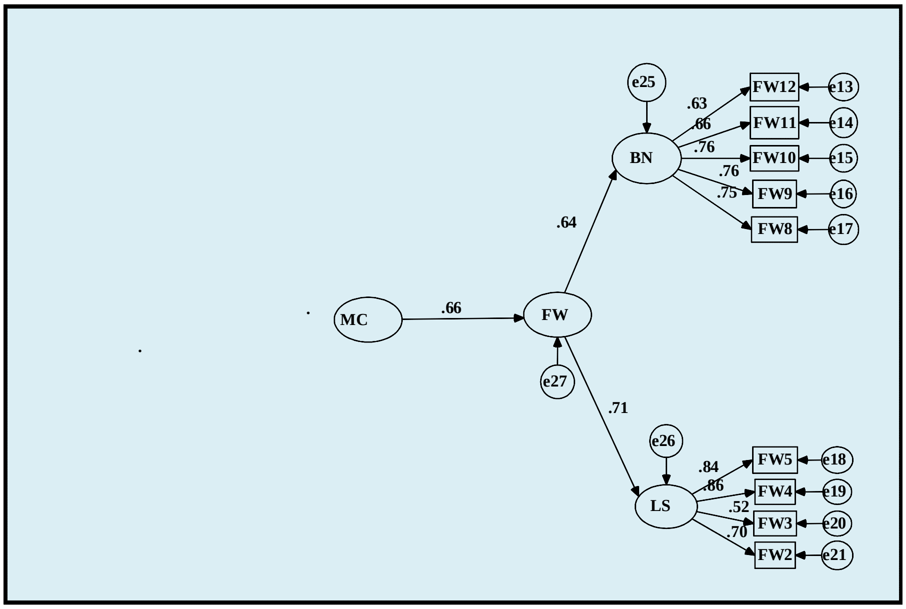

Figure 2: Impact of Microcredit on Financial Well-being*

*Source: Data Analysis

Note: MC=Microcredit, FW=Financial well-being, BN= Basic needs, LS=Living standard;, FW8= Members of your family are educated after accessing Microcredit, FW9= Household head is educated enough to guide other members to move on right track, FW10= You frequently purchase basic goods, FW11= Microcredit improves sanitation facility at your home, FW12= Overall, Microcredit has reduced the level of poverty, FW2= Your expenditure on clothing has increased, FW3= Your expenditure on luxuries has increased, FW4= Your consumption level has increased, FW5= Family crises are reduced through better living standard and e1-e27 are the error terms.

FINDINGS AND SUGGESTIONS

Based on the above analysis, the major findings of the study are as follow:

1. The findings of the SEM model revealed that microcredit has significant relation with financial well-being (ß=.66, p<0.01) which leads to the conclusion that microcredit is an effective instrument for combating the poverty & improving the financial well-being of underprivileged section of the society.
2. The mean score for the item, 'Household head is educated enough to guide other members to move on right track' (2.85) was arrived low, which leads to the conclusion that microfinance institutions fails to guide household members regarding access and use of microfinance services offered by them.
3. Respondents had responded low (2.94) for the item, 'Health has improved by consuming better quality food' which induced that there was lack of awareness

among rural population about health and medical insurance facilities i.e. micro insurance offered by the microfinance institutions.

4. The beneficiaries had responded low (2.02) for the item, 'Your expenditure on luxuries has increased' which indicates that micro financial institutions are able to fulfill the basic needs of customers but not accomplished their luxuries requirements.
5. The beneficiaries had responded high (3.97) for the item, 'Overall, Microcredit has reduced the level of poverty' which indicates that microcredit has been considered as one of the important tool for poverty alleviation and financial well-being.
6. High mean scores i.e. 3.90 & 3.91 were arrived for the items 'You consume better quality food than before' and 'Your consumption level has increased' respectively, which indicates that after availing microcredit facilities poor people are able to consume better quality food and their consumption level has increased.

In order to improve financial well-being through microfinance, the following suggestions are offered to reach out to the people who are living in the bottom of the pyramid.

1. It is suggested that the microfinance institutions/banks should provide hassle free financial assistance to unemployed youths for starting up their own business units so that they may earn stable and regular income for their survival. This will also results in creating employment opportunities for others.
2. It was also observed that most of rural households did not open their accounts with the microfinance institutions/banks because of cumbersome account opening norms. Hence, it is suggested that the microfinance should simplify the account opening norms. The account opening forms should be available in vernacular language of the customer. Further, it is suggested that the microfinance institutions should open branches in unbanked areas having population of more than 1000 households.
3. It was also found that the microfinance institutions fail to guide household members regarding access and use of microfinance services offered by them. It is suggested that the microfinance should organize financial literacy programme so that every household in the country become educated enough to micro insurance offered by the microfinance institutions
4. In order to create awareness among rural population about the health and medical insurance facilities, it suggested that microfinance institutions should organize awareness programme at the gross root-level regarding the various schemes such as micro-insurance offered by the microfinance institutions.

LIMITATIONS OF THE STUDY AND DIRECTION FOR FUTURE RESEARCH

The current study suffers from the following limitations.

1. The scope of the study is restricted to Jammu region only due to time and resources constraints, which in future could be extended to other parts of Jammu and Kashmir.
2. The respondents were selected from rural areas only. In future respondents from urban areas can be contacted.
3. The chances of subjectivity in some cases cannot be ruled out.

Table 2: Output from Factor Analysis with Regard to Impact of Microcredit on Financial Well-being*

Factor-Wise Dimensions	*M*	*SD*	*FL*	*Eigen values*	*% of VE*	*Commu-nality*	*Alpha (α)*
Financial Well-Being							
Factor 1 Basic needs	3.90			4.179	27.444		.601
Members of your family are educated after accessing Microcredit	3.83	0.847	0.685			0.586	
Household head is educated enough to guide other members to move on right track	2.85	0.852	0.783			0.647	
You frequently purchase basic goods	3.87	0.817	0.794			0.665	
Microcredit improves sanitation facility at your home	3.96	1.367	0.553			0.583	
Overall, Microcredit has reduced the level of poverty	3.97	0.815	0.612			0.551	
Factor 2 Living standard	3.65			1.128	17.728		.711
Your expenditure on clothing has increased	3.79	0.781	0.535			0.565	
Your expenditure on luxuries has increased	2.02	1.067	0.834			0.725	
Your consumption level has increased	3.91	0.755	0.664			0.709	
Family crises are reduced through better living standard	3.88	0.740	0.544			0.659	
Factor 3 Health and food	3.92			1.176	13.949		.521
You consume better quality food than before	3.90	1.952	0.565			0.568	
Health has improved by consuming better quality food	2.94	1.907	0.723			0.523	
Total Variance Explained					**59.121**		

**Source:* Data analysis

Table 3: Reliability and Validity of the Scale*

Constructs	*AVE*	*Composite reliability*	*Cronbach's alpha (α)*
Financial well-being	.617	.945	.774

*Source: Data analysis

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