

# Economic Analysis of Microfinance: A Study of Dwarahat Block of Almora District in Uttarakhand

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**Abstract**—Microfinance is an important tool to meet the financial needs of the poor and economically deprived sections. By providing small loans, microfinance has helped improve people's standard of living. The present study focuses on the economic analysis of microfinance in the Dwarahat Block of Almora District, Uttarakhand. This study examines the changes in people's standard of living brought about by microfinance, and explores the barriers faced in accessing it. The present study also offers a set of suggestions to make microfinance more effective and beneficial. The present study has found that microfinance has led to an increase in the income and consumption levels of people in the Dwarahat block of the Almora region. Furthermore, this study will provide researchers and policymakers with insights for studies related to microfinance.

**Keywords**— Microfinance, Poverty, Income, Loans, Saving, interest.

## I. INTRODUCTION

Microfinance refers to the provision of financial services tailored to the needs of low-income and small entrepreneurs, which includes delivery of small loans, provision of small loans insurance and government transfers at small level. It also includes savings, deposits and payment services required by the economically deprived and micro entrepreneurs. The term microfinance refers to the delivery of financial services to customers who are left out of the financial system due to their poor economic status. Adnan, S. A., & Kumar, P. (2021). Microfinance refers to small loans and financial services provided to start and operate small businesses. Microfinance helps empower people in society who do not have access to formal banks. Microfinance enables financially excluded people to diversify their options to sustain their livelihoods. Microfinance helps in increasing income thus reducing the incidence of poverty. Some of the institutions providing microfinance services are non-government organizations, savings and government loan societies, credit unions, government banks, commercial banks and non-banking financial institutions. The aim of microfinance is to provide financial assistance to the entrepreneurs who are street vendors, small hair dressers, rickshaw pullers, artisans, blacksmiths etc. (Kumar 2025)

## II. HISTORICAL AND GLOBAL CONTEXT

The concept of microfinance is not new; every developing country has its own history of microfinance. Every country has its own approach towards microfinance which is believed that microfinance developed from Bengal 55 years ago. Microfinance was introduced to Europe during the 18th

century with the establishment of the Vaux Club in England. Loan funds emerged in Ireland in the 1720s. The first private bank was established in Hamburg in 1778 and the first savings fund was created in 1801. Due to this, savings funds gave rise to savings banks and agricultural loans expanded to term loans. Microfinance service started in Bengal in 1970 where Professor Mohammad Yunus established the Grameen Bank. The Grameen Bank of Bangladesh provided financial facilities through self-help groups. Microfinance in India began in 1974 through the Shri Mahila Sewa (Self Employed Women's Association) Cooperative Bank of Gujarat. (Seibel, H. D. 2003). There are two providers for providing microfinance in India, first is microfinance institution and second is self-help group. Some microfinance institutions in India are Regional Rural Banks, Co-operative Societies, Development Banks, Postal Saving Banks, etc. In 1992, NABARD established financial intermediaries (SHG) which is a group of 10-20 people. These are groups that deal with similar economic and social problems. Microfinance helps empower this group of women from many perspectives. (NABARD 2022).

*Evolution of Microfinance in India* The evolution of the Indian microfinance sector can be broadly divided into four distinct phases: Kumar, V., Chauhan, M., & Kumar, R. (2015).

*Phase 1:* The first phase was the cooperative movement which existed from 1900-1960. In this phase, subsidy credit was provided to microfinance connected villages by Government sponsored credit societies.

*Phase 2:* Subsidized Social Banking (1960s - 1990) in this phase, along with the failure of government committees, the government emphasized on nationalization of banks, expansion of banking branches in rural areas, establishment of rural banks in rural areas and establishment of national agricultural and rural banks. For this, Integrated Rural Development Programmed was also established by the government so that access could be made to a large population. This period saw large-scale credit abuses, with big bankers losing their credibility with small borrowers and there was a negative perception among bankers about loan disbursement, as a result of which people with low income were unable to access banking services.

*Phase 3:* The failure of subsidized social banks led to a paradigm shift in rural credit delivery. Under this change, NABARD started Self Help Group, Bank Linkage Program. Through this, informal women groups were to be linked with formal banks. This program tried to connect people with finance who were till now almost deprived of financial services. Along with this, this program also helped the banks

to reach out to the people who were low-income earners. Banks have now started showing interest in joining hands with small scale people also. After this, when the economic crisis occurred in 1991, then due to economic reforms, private sector banks also started emerging as the main players in the field of microfinance.

*Phase 4:* The rural sector has particularly emerged as an emerging destination for microfinance following microfinance reforms in the first decade of the 21st century. During this period the microfinance institution also performed its responsibility as a social cooperative. On the demand side too, NGOs and non-banking institutions also took special interest in it. Nowadays most of the women in India have emerged as the main beneficiaries of microfinance.

*Model of Microfinance in India* There are mainly four important models prevalent in India which help people through microfinance.

*Model I* – In this model, individuals or group borrowers are financed without any banking intervention and non-government organization.

*Model II* – Under this model, loans are provided to people by government commercial banks, micro finance institutions, cooperative societies and formal financial institutions.

*Model III* – Financing take place through NGO and financing agencies.

*Model IV*–This model is similar to the Gramin Bank model of Bangladesh. This is a powerful medium to fulfill the financial needs of people in rural areas.

#### *Hypothesis:*

H0: Microfinance services have no significant impact on standard of living.

H1: Microfinance services have a significant positive impact on standard of living.

#### *Objectives*

The following objectives have been taken in the present study:

1. To evaluate changing level of living of the sampled households,
2. To explore the challenges faced by microfinance beneficiary and suitable suggestion.

### III. SAMPLING METHOD AND SAMPLE SIZE

The present study, Economic Analysis of Microfinance in Dwarahat Block of Almora District in Uttarakhand was selected purposively for the study. Almora district has eleven development blocks, this development block are also very important for agriculture and allied activities. Hence the present study is limited to the Dwarahat development block. In the first stage, all the village panchayats were arranged in ascending order based on their population, and four panchayats were selected randomly. In the second stage, three villages were chosen from each of the four selected village panchayats. This process resulted in a total of twelve villages being selected. In the final stage, a list of sixty (60) microfinance beneficiaries was prepared for data collection.

*Data Source* Data were collected from both primary and secondary sources. Primary data has been collected from respondents using a well-designed questionnaire and face to

face interviews. Secondary data has been collected from secondary source like RBI, NABARD, Research Journals, various government reports, and economic surveys, State Cooperative Society etc.

### IV. TOOLS AND TECHNIQUES USED

Descriptive statistical tools such as mean, percentages, and frequency distribution were used to measure the extent of microfinance accessibility and utilization. To assess the change in living standards of the sampled households before and after taking microfinance, before-and-after comparison approach (pre-test/post-test design) was adopted to assess changes in the living standards of sampled households. A Composite Living Standard Index (LSI) was constructed using normalized values of key indicators such as income, type of house, asset ownership, sanitation, education, and health, with appropriate weights assigned to each. In case a control group was available, the Difference-in-Differences (DiD) technique was used to measure the net impact of microfinance. Furthermore, perception-based tools (e.g., satisfaction levels and self-reported changes) were used to capture qualitative dimensions of change in beneficiaries' lives.

#### *Construction of Composite Living Standard Index (LSI)*

To evaluate the living standard of sampled households, a Composite Living Standard Index (LSI) was constructed using the normalized values of selected indicators. (Filmer, D., & Pritchett, L. 2001).

1. Selection of Indicators: Indicators such as monthly income, type of house, ownership of durable assets, access to clean drinking water, sanitation facility, education level, health facility access, and consumption expenditure were chosen to reflect the standard of living.

2. Normalization of Data: Since the indicators were measured in different units, the data was normalized using Min-Max Normalization to bring values on a common scale (0 to 1). For positive indicators (where higher value implies better standard of living), the formula used was:

Where:

$X' = X$  = original value

$X'$  = normalized value of (between 0 to 1)

$X_{min}$  = lowest value in the dataset

$X_{max}$  = Highest value in the dataset

For negative indicator

$X' = \text{Calculate the composite index} = \text{normalized value} \times \text{weight}$

$LSI = \sum (\text{normalized value}_i \times \text{weight}_i)$

*Weight Assignment:*

Equal weights were assigned to each indicator (or weights can be based on expert opinion or factor analysis, if applicable). If there are n indicators, then each weight is:

$W_i =$

Where:

$W_i$  = weight of the ith indicator

n = total number of indicators

*Composite Index (LSI) Calculation*

The final Living Standard Index (LSI) was computed using the weighted sum of normalized values:

LSI= Where: •  $X_i \times w_i$  = Contribution  
 n = Total number of respondents = 60

**Impact of Microfinance**

Microfinance is an important tool to meet the financial needs of the poor and economically deprived sections. By giving small loans, microfinance has worked to improve the standard of living of people. The composite index method has been used to estimate the impact of microfinance on people's lives.

**Impact of Microfinance**

Indicators:	Before Microfinance (N = 60)	After Microfinance (N = 60)
Change in Monthly households income	0.35	0.71
Change in Monthly households savings	0.19	0.60
Consumption Expenditure	0.43	0.76
Change in source of credit	0.15	0.63
Change in ownership of productive Assets	0.39	0.78
Change in type of housing	0.29	0.78
Change in education level	0.39	0.59
Change in access to food & nutrition	0.40	0.64

(Source: field survey 2025)

The table shows the impact on respondents' level of livings before and after taking microfinance. The table shows that the number of respondents having monthly income which composite index scores before is 0.35 and after taking microfinance this score is increase 0.71, which indicates a significant increase in income. Table shows that microfinance has significantly increased the saving of the respondents. Microfinance aims at financial inclusion of poor and economically deprived people by accepting their small savings. When the income of the respondents increases due to microfinance, people save some part of their income for their times of crisis. Hence microfinance helps people in times of crisis by accepting their small savings. The growth in savings through microfinance is shown in the table, which shows that before microfinance composite index score is 0.19 and after microfinance it increases 0.60.

Microfinance plays a very important role in increasing the income and savings of people. People save some amount of the increased income and spend the rest on food, health, education and other needs. Table shows the impact on consumption expenditure of respondents before and after engaging with microfinance. Through the table, expenditure of the respondents has been analyzed through food, health, education and other durable goods. It is clear from the table that before microfinance, composite index score is 0.43 who used to spend their income on food whereas after joining microfinance it increases 0.66. Therefore, it is clear from the table that microfinance has proved beneficial in increasing the consumption level of people.

In rural areas, the means of informal credit are rural moneylenders. After connecting with microfinance, the respondents' dependence on informal sources has reduced. Microfinance accepts small savings of people and provides them small loans. Due to easy availability of loans, people

have become more connected to formal sources. Table shows the analysis of the respondents' credit sources before and after microfinance. Table shows that before joining microfinance, the composite index of sources of credit is 0.15 which later increased to 0.63. The table clearly shows that there has been an increase in the number of respondents in formal sources after joining the microfinance services.

Microfinance has proved to be a boon for poor people. Microfinance has significantly increased the income, savings and consumption of the respondents. Microfinance has also helped in increasing the productive assets of people. Through microfinance people have worked to increase cattle, shaving machine shop and business equipment etc.

The composite index in ownership productive assets was 0.39 before microfinance while after joining microfinance it is 0.78 which shows a significant increase in the ownership of productive assets. Hence, it is clear from the table that microfinance has proved helpful in increasing the ownership productive assets of people. Microfinance has played a vital role in improving the income and living standards of people. With increase in income, people have also improved the quality of their housing.

Microfinance has increased the income of people. Respondents used their increased income to build their homes. The composite index before joining microfinance was 0.29 which increased to 0.78 after joining microfinance. This indicates that microfinance has improved the type of houses of the respondents. Hence, due to increased income from microfinance, the respondents spent a part of their income on construction of their houses.

Microfinance has proven to be an essential tool to improve the living standards of respondents. Microfinance has improved the primary, secondary and higher education of respondents. The table shows that the number of respondents having education was initially 7 which later increased to 17. Its composite score has increased from 0.1 to 0.7. Hence, the table shows that microfinance has brought about a significant improvement in the level of education of the respondents.

Microfinance has improved the living standards of respondents. Respondents have invested part of their increased income in improving their food and nutrition. The respondents, who were consuming less nutrition before microfinance, improved their food facilities after microfinance.

This table shows a comparative analysis of respondents' access to food and nutrition before and after availing microfinance services. It is clear from the table that before joining microfinance, 15 respondents used inadequate low nutrition (e.g., irregular meals, poor diet) which later reduced to 5 after joining microfinance. The table shows that the number of respondent' basic nutrition (e.g., cereals, limited vegetables) was 25 before the microfinance service which later decreased to 15. The table shows that before joining the microfinance service, composite score is 0.40 were after joining microfinance this number increased to 0.60. This shows that microfinance has improved the quality of food and nutrition for the respondents. Thus, the analysis clearly demonstrates that microfinance has not only contributed to

income enhancement but has also played a significant role in improving the standard of living through better access to food and nutrition increase income, increase in consumption expenditure, education and better health facility. We have therefore rejected (H<sub>0</sub>) this hypothesis.

## V. CONCLUSION & SUGGESTION

Microfinance is playing an important role in financial inclusion and poverty reduction. However, after studying the pros and cons of this scheme it is found that there are some operational faults in it such as tough rules, lack of banking facilities in rural areas, more formalities etc. to overcome these issues and to further improve this scheme some measures have been suggested below.

1. In India the rules for taking and giving loans from banks are very strict. To fulfill these rules, the beneficiaries do not like to go to the banks, due to which many times people avoid fulfilling these difficult rules and are deprived of the benefits of microfinance. Therefore, microfinance institutions should simplify the rules and make them favorable to poor people and beneficiaries.
2. India still has very few bank branches in rural areas compared to developed countries due to the bank branches being far away, the beneficiaries have to incur transportation costs to go to faraway places, due to which many times most of the beneficiaries are not interested in joining banking services. Therefore, the government should increase the number of microfinance institutions so that every poor person can avail the benefits of microfinance services.
3. There are a lot of formalities involved in the government schemes related to microfinance. The beneficiary takes a lot of time to complete them. The beneficiary gets stuck in the paperwork which not only wastes his time but also he has to spend a lot of time there. Hence, the government should reduce the formats of microfinance related schemes so that people can avail the benefits in less time and easily.
4. Many times consumers do not get any information regarding microfinance related schemes due to which they are not able to connect with it and as a result they remain 84 deprived of important schemes. The government should increase awareness regarding microfinance and awareness campaigns should be run in every rural area.
5. Sometimes there is a delay in transferring funds in microfinance. Due to which there is a long delay in reaching the benefits to the beneficiary. For this the government and microfinance institution should make the payment to the beneficiary immediately.
6. The interest rate on microfinance is very high, which is often beyond the reach of poor people, hence the government should reduce the interest rate.
7. The study found that less skill related work is delivered by microfinance institutions and this needs to be increased further.
8. Many women hesitate to go out of the house alone and take training. Family and social situations also create obstacles for them in getting training. For this, training of

women in larger groups should be encouraged so that they can participate in more training programmers. Along with this, women should also be provided with travelling expenses to the training venue.

9. In microfinance, the risk increases due to giving loans to a few people. Regulatory bodies should create a common database of customers of microfinance institutions and their entire history should be available with the bank so that their entire financial history can be tracked. This can help in reducing the risk.
10. Many times microfinance institutions is not able to deliver money as per the needs of the people. Many times money is given to the person who actually does not need money. For this, microfinance institutions should regularly check the achievements of their borrowers and determine their actual need for additional credit. Therefore, loans should be given to new eligible customers instead of the existing unproductive customers so as to improve their well-being and standard of living.
11. Many times borrowers are unable to repay their dues. This increases the financial burden on the government and banks. For this, banks should review their rules from time to time so that they can strengthen their risk management and governance mechanisms. Effective risk management systems should be adopted by MFIs to mitigate the high credit risk associated with low-income clients.
12. MSME institutions do not emphasize on communication among customers due to which a proper channel of communication is not established between customers and bankers. For this, MFI institutions should regularly talk to their customers about their business performance and take suggestions from them to meet or solve their financial and non-financial needs.

To sum up microfinance is one of the most innovative, widely acceptable, highly appreciated and non-discriminatory banking services product. It should reach each and every poor people for the eradication of the poverty. Along with educating the beneficiaries, the funds given should be strictly monitored. There is a huge gap between policy and actual use. This gap can be bridged in two ways. One is to reduce stringent condition and the other is to train the beneficiaries. This study seeks to help both the bankers and the beneficiaries in better utilization of their credit and timely recovery. Top banks RBI and NABARD have made it possible to a large extent.

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