

## **Impact of Microfinance on household expenditure: An Empirical study**

Ram prasad Parajuli

(Ph D scholar of Dr. K. N. Modi University Rajasthan, Newai, India)

Corresponding address: Krpparajuli123@gmail.com

---

**Abstract:** *This study tries to establish the impact of micro-finance services on household expenditure in Nepal. The study employed a causal study. The population for this study consisted of participants of MFIs in the Kathmandu, Lalitpur and Sindhupalchok from January 2014 to December January 2016. Stratified random sampling was used to select 400 respondents for the study. Data was collected by using a set of questionnaire and in-depth interview. The data was pre-processed using Statistical Package for Social Sciences (SPSS). The study shows the Credit facilities had the highest impact followed by the use of different household product. The study also recommends that the MFIs being operated in Nepal are empowered through provision of finances which can be advanced to the locals as credit to facilitate economic growth. To build capacity among the study area, the study recommends that the MFIs operating in Nepal undertake regular training especially on financial management/management as well as operational courses so that the local can learn the best financial management skills and thus improve their businesses as well as income.*

---

### **I. Background of the study**

The Microfinance is a banking system of poor through groups. This essential features of the approach are to provide financial services through the groups of individuals, formed either in common obligation. The other dimensions of the microfinance approach are: Savings/Thrift precedes credit, Credit is linked with savings/thrift, Absence of subsidies and Group plays an important role in credit appraisal, monitoring and recovery of loan. It provides the small loan with the hope of improving their labour productivity and there by lead to increment in household incomes then household expenditure of poor. It was also the interest of this study to understand how households used the micro credit, and to measure the impact of that micro credit on household expenditure through income smoothing.

Generally loan to the poor used to be a meaningless perception. Number of poor, helpless non-poor and unbanked households want financial services. They seek a diverse range of services including loans, savings, insurance, and remittances service. Most of the people use financial services to increase incomes, increase the capabilities on household expenditure, and protect against susceptibility often exacerbated by economic crises. They invested their limited amount in micro and small businesses, purchase assets, upgrade their household activities, and easy access in use of house hold product, health and education of their children. The poor are disadvantaged of basic necessities in their life, such as education, food, shelter, clothing, and clean drinking water. They also lack access to health care, quality education, and employment opportunities that are important in improving their human capital. Due to the profound impact that poverty has on the poor's well-being, efforts have been made by various multilateral organizations, such as the United Nations for the address these problems and fight with poverty. One such poverty alleviation tool is microfinance, which has gained worldwide recognition since the 1990s and has been proven to have positive effects on poverty levels in developing countries (Hossain et al, 2008). Microfinance is the provision of financial services to the poor, aiming to empower low-income peoples by providing them with access to credit and other financial services. Through microfinance institutions (MFIs), the poor can obtain loans with collateral at relatively low interest rates and use the money for creating microenterprises, funding children's education, and improving homes, among others. Aside from microcredit (small loans), MFIs have also developed several financial products, such as micro-insurance and micro-mortgage that are designed to accommodate the financial needs. Most of these institutions have also required their clients to open up savings accounts, which could be used for emergency and investment purpose (Carr & Tong, 2002). Income and consumption smoothing in these economies are either inadequate or are absent altogether. Some households do manage to break out poverty, while others remain in poverty for extended periods of time. Understanding what factors drive household movements in and out of poverty is extremely important for the design of poverty reduction strategies, and is still an open area of research (Kiiru, 2010).

### **1.1 Statement of problem**

Now a day's main objectives of MFIs is reducing poverty, upgrading health condition, education, and enhancing other aspects of human welfare like use of household product. In Nepal, government form policy framework and number of schemes for rural development. The movement towards sustainable rural development. Sustainable development is possible through the modern tool to fight with poverty and make certain for rural development. Apart from savings and credit; duration of involvement in microfinance whether it is capable of addressing social issues like health, education, sanitation, drinking water and use the sufficient level of household product by participants?

## **II. Review of Literature**

This section deals with those literature and documents which are directly or indirectly related to Microfinance and Poverty alleviation. In another words, All the concerned group or individual, which include practitioners, industry, donor agencies, policy makers and of course researchers have interest in such studies and research. It becomes the responsibility for MFIs to prove that funds have been spent to attain the primary objective for which they have been working. Also, participant of micro credit program would like to get feedback about their product and services whether they are meeting the client's needs satisfactorily (Nelson C. B., 2000) Mahila Utthan Kendra and others conducted a research on impact of microfinance on poverty, according them microfinance is an effective instrument against poverty. It has revealed positive change in additional investment in business, income received, and savings made through different activities with the increased funding support, and assets (both living and non-living) were increased both in terms of quantity and quality. Food self-sufficiency situation improved remarkably when compared to situation before participation in the micro credit program. Number of daily food intake and frequency of nutritious food intake per month were also found greatly impacted after the program. There is also remarkable improvement in housing, health care, and education of children.. Niranjana Sarangi, conclude his research, results show a positive and significant effect of micro credit programme increase in the income of the household. He expected that, even for the poor, because the participant in the micro credit programme gets easy access to small loan from group savings fund, although access to formal sector loans ( like Bank loan) is directed more towards better-off income households. However, the impact is negligible for the households at the lower end of income distribution. Further, he also highlighted, the predicted impact on income is not found to be highly significant for any of the programmes individually although the impact is positive (Sarangi, 2007, p. 32).

Monique prepared the paper for the presentation in Latin American microfinance meeting in 1999, and he found that micro finance participants modify their consumption patterns, able to increase their income by mobilizing labour or selling assets, they draw on informal and formal savings, and draw down claims on informal group based insurance mechanisms. Microfinance participants look for to conserve productive assets and thus maintain their income generating potential if at all possible. Across the research area countries, he found there was a reluctance to withdraw children from school, cash in savings increase in investment or sell productive assets. Overall the study found that MFIs play more of a role in helping clients protect against risks ahead of time than cope with shocks after they occur." (Cohen, 1999, p. 9) Johnson explained "This shift in emphasis away from the provision of credit solely for income generation towards a range of financial services is consistent with an understanding of poverty which looks beyond low incomes to vulnerability and powerlessness. Providing microfinance can give poor people the means to protect their livelihoods against shocks as well as to build up and diversity—also a means of protecting—their livelihood activities by investing loan capital" (Johnson, 1997, p. 118).

Asad k. Ghalib, Issam Malki and Katsushi S. Imai conducted a research in rural Pakistan. This study examines whether household access to microfinance reduces poverty in Pakistan and, if so, how and to what extent. It draws on primary empirical data gathered by interviewing 1132 households, including both borrower and non-borrower households, in 2008–2009. Sample selection biases have been partially controlled for by using propensity score matching. The study reveals that microfinance programmes had a positive impact on the participating households. Poverty-reducing effects were observed on a number of indicators, including expenditure on healthcare, clothing and household income, and on certain dwelling characteristics, such as water supply and the quality of roofing and walls (Asad K. Ghalib, 2014, pp. 84-104).

## **III. Research methodology**

A casual study approach was employed to explore relationships between variables. Stratified random sampling was used in this study in capturing the employees of micro finance institutions and stakeholders because the sample was heterogeneous, since there were differences among the respondents in terms of involvement year in microfinance program and different aspect of household expenditure. Data analysis was processed using Statistical Package for Social Sciences (SPSS) and chi-square and descriptive analysis is used to find out the association between different variables,

**IV. Data presentation and discussion**

Main objective of micro finance is to alleviate of poverty, when people fulfil the different types of household requirements like, ownership of house, expenditure on children education, food security, cloth, social contribution, expenditure on health/ medical expenditure and so on. Similarly use of different household product like use of live stock, different electronic device, as well as other product. When people fulfil the above requirements from house hold activities or business activities, it means there is no poverty. In this section present study going to test role of microfinance for support the different house hold product. Relationship between different variables were shown below:

**1. Involvement year in micro finance and ownership of house**

The ownership status of house of respondents were as follows,

**Table No.1.** Involvement year in micro finance and ownership of house

Involvement year in micro finance	house ownership										Total	
	Public land		Relatives land		Govt.		Rent		Own		No	%
	No.	%	No.	%	No.	%	No	%	No.	%		
1 year	0	0%	8	2%	0	0%	46	11.5%	143	35.8%	197	49.2%
2-4 years	1	0.2%	0	0.0%	3	0.8%	13	3.2%	166	41.5%	183	45.8%
5 and more years	0	0.0%	0	0.0%	0	0.0%	1	0.2%	19	4.8%	20	5%
<b>Total</b>	<b>1</b>	<b>0.2%</b>	<b>8</b>	<b>2%</b>	<b>3</b>	<b>0.8%</b>	<b>60</b>	<b>15%</b>	<b>328</b>	<b>82.2%</b>	<b>400</b>	<b>100%</b>
<b>Chi-Square Tests</b>												
Pearson Chi-Square			Value		Df		Asymp. Sig. (2-sided)					
Pearson Chi-Square			35.318		8		.000					

Source: field survey 2016

The computed value of Chi-square statistic is compared with table value for 5% level of significance. Since the calculated value is less than the table value (0.05>0.000). So there is significant relationship between involvement and micro finance/ micro credit and ownership of house. When participant use microcredit, income of people also goes to increase. When involvement year of participant going to increase, ownership of house also goes to increase. It means there is significant relationship between involvement duration in micro finance and ownership of house. The expenditure on children education of respondents were as follows:

**2. Involvement year in micro finance and Expenditure on children education**

**Table No. 2.** Involvement year in micro finance and expenditure on children education

Involvement year in micro finance	Monthly Expenditure on children education								Total	
	No expenditure		1-10 thousand		11-20 thousand		More than 21 thousand		No	%
1 year	0	0.0%	105	28%	50	13.3%	19	5.1%		
2-4 years	4	1.1%	132	35.2%	34	9.1%	11	2.9%	181	48.3%
5 and more years	0	0.0%	16	4.3%	4	1.1%	0	0.0%	20	3.5%
<b>Total</b>	<b>4</b>	<b>1.1</b>	<b>253</b>	<b>67.5</b>	<b>88</b>	<b>23.5</b>	<b>30</b>	<b>8%</b>	<b>375</b>	<b>100%</b>
<b>Chi-Square Tests</b>										
Pearson Chi-Square			Value		Df		Asymp. Sig. (2-sided)			
Pearson Chi-Square			15.003		6		.020			

Source: Field survey 2016

The computed value of Chi-square statistic is compared with table value for 5% level of significance. Since the calculated value is less than the table value (0.05>0.020). So there is significant relationship between involvement in micro credit program and expenditure on children education. When income of people increases, then, they also increase the expenditure on children education.

**3. Involvement in microfinance and food Fulfil from own land**

The food fulfilments of respondents were as follows;

**Table No. 3.** involvement year in microfinance and food fulfil from own land

Involvement year in micro finance	Fulfilment of food from own land										Total	
	Less than 3 month		Up to 6 months		Up to 9 months		Up to 1 year		More than 1 year		No	%
1 year	68	17%	53	13.2%	21	5.2%	40	10%	15	3.8%		
2-4 years	47	11.8%	40	10%	27	6.8%	44	11%	25	6.2%	183	45.8%
5 and more years	12	3%	7	1.8%	0	0.0%	1	0.2%	0	0.0%	20	5%
<b>Total</b>	<b>127</b>	<b>31.8%</b>	<b>100</b>	<b>25%</b>	<b>48</b>	<b>12%</b>	<b>85</b>	<b>21.2%</b>	<b>40</b>	<b>10</b>	<b>400</b>	<b>100%</b>
<b>Chi-Square Tests</b>												
Pearson Chi-Square			Value		Df		Asymp. Sig. (2-sided)					
Pearson Chi-Square			22.098		8		.005					

Source: Field survey 2016

The computed value of Chi-square statistic is compared with table value for 5% level of significance. Since the calculated value is less than the table value ( $0.05 > 0.005$ ). So there is significant relationship between involvement year in micro credit and food fulfil of food. Nearly 70 % participants cannot fulfil their food from their own land. It means they fulfil their food from profit of business. And that business is financially supported microfinance institute. So, there is significant relationship between involvement of micro finance and fulfilment of required food and other nutrition.

**4. Involvement in micro finance and Increments in household expenditure**

The change in household expenditure of respondents were as follows

**Table No. 4** Involvement year in microfinance and increments in household expenditure

Involvement year in micro finance		Increment of household expenditure				Total	
		Yes		No			
		No.	%	No.	%	No	%
1 year	182	45.5%	15	3.8%	197	49.2%	
2-4 years	162	40.5%	21	5.2%	183	45.8%	
5 and more years	20	5%	0	0%	20	5%	
<b>Total</b>	<b>364</b>	<b>91.0%</b>	<b>36</b>	<b>9%</b>	<b>400</b>	<b>100%</b>	
<b>Chi-Square Tests</b>							
		Value	Df	Asymp. Sig. (2-sided)			
Pearson Chi-Square		3.809	2	.149			

**Source:** Field survey 2016

The computed value of Chi-square statistic is compared with table value for 5% level of significance. Since the calculated value is less than the table value ( $0.05 > 0.149$ ). So there is not significant relationship between involvement duration in micro credit program and increment in house hold expenditure. But 91% respondent's house hold expenditure is increased during the study period and that increased expenditure managed by income of business, which is supported by microfinance company. Because of the increment rate of inflation, political instability of country and massive earthquake in study area, Market price of products is increased during the information collection.

**5. Involvement in microfinance and Expenditure on food**

The change in expenditure on food of respondents were as follows;

**Table No. 5.** Involvement in microfinance and expenditure on food

Involvement year in micro finance		Change in expenditure on food				Total	
		Last year		This year			
		No.	%	No.	%	No	%
1 year	139	34.9%	58	14.6%	197	49.5%	
2-4 years	73	18.3%	108	27.1%	181	45.5%	
5 and more years	3	0.8%	17	4.3%	20	5%	
<b>Total</b>	<b>215</b>	<b>54%</b>	<b>183</b>	<b>46%</b>	<b>398</b>	<b>100%</b>	
<b>Chi-Square Tests</b>							
		Value	df	Asymp. Sig. (2-sided)			
Pearson Chi-Square		47.607	2	.000			

**Source:** Field survey 2016

The computed value of Chi-square statistic is compared with table value for 5% level of significance. Since the calculated value is less than the table value ( $0.05 > 0.000$ ). So there is significant relationship between involvement in micro credit program and change in food and feeding. Due to the change in income from the business activities, certain part of income (profit) goes to consumption then expenditure on food going to increase.

**6. Involvement in microfinance and change in expenditure on cloth**

The change in expenditure on cloths of respondents were as follows

**Table No 6.** involvement in micro finance and change in expenditure on cloth

Involvement year in micro finance		Expenditure on cloth				Total	
		Last year		This year			
		No.	%	No.	%	No	%
1 year	133	33.2%	64	16%	197	49.2%	
2-4 years	103	25.8%	80	20%	183	45.8%	
5 and more years	2	0.5%	18	4.5%	20	5%	
<b>Total</b>	<b>238</b>	<b>59.5%</b>	<b>162</b>	<b>40.5%</b>	<b>400</b>	<b>100%</b>	
<b>Chi-Square Tests</b>							
		Value	df	Asymp. Sig. (2-sided)			
Pearson Chi-Square		26.370	2	.000			

**Source:** Field survey 2016

The computed value of Chi-square statistic is compared with table value for 5% level of significance. Since the calculated value is less than the table value ( $0.05 > 0.000$ ). So there is significant relationship between involvement in micro credit program and increment expenditure in clothing. It shows that any type of consumption normally household expenditure base on income, when income of business/ household is increased at that time household expenditure also increased. It shows that there is positive effect of micro finance in to fulfilment of household requirements.

**7.involvement in microfinance and change in expenditure of children education**

The change in expenditure of children education of respondents were as follows;

**Table No. 7.** change in expenditure of children education

Involvement year in micro finance	Change in education expenditure for children				Total	
	Last year		This year			
1 year	126	31.5%	71	17.8%	197	49.2%
2-4 years	64	16%	119	29.8%	183	45.8%
5 and more years	1	0.2%	19	4.8%	20	5%
Total	191	47.8%	209	52.2%	400	100%
Chi-Square Tests						
	Value	df	Asymp. Sig. (2-sided)			
Pearson Chi-Square	47.371	2	.000			

**Source:** Field survey 2016

The computed value of Chi-square statistic is compared with table value for 5% level of significance. Since the calculated value is less than the table value ( $0.05 > 0.000$ ). So there is significant relationship between involvement in micro finance / micro credit and expenditure on children education. It shown that education expenditure of children's increased per year, that increased expenditure recovered either income/ profit or loan. With the base of field observation most of the increased expenditure on children's education recovered by profit of business. When involvement year in microfinance was increased, there is easy to manage the financial resource for children's education. Some participants (which were from normal background) able to send their children in medical sector, engineering sector, chartered Accounting as well as abroad.

**Summary and conclusion**

For the impact assessment, asset accumulation, expenditure pattern of the clients on food clothing children's education, house repairing access to health services, and enterprise performances are the indicators used for study purpose. Analysis done through comparing the variables in two different periods and also comparing them before and after the participation in micro finance. Similarly, the change on women's empowerment is assessed through evaluating the impact of the programme on clients lives measuring the benefit sharing between men and women of the credit recipient households, and also measuring the levels of women's consciousness and power in decision-making within discussions were made with the key informants, who have special insights into a particular issue of issues and provided some feedback on the issues.

When participant use microcredit, income of people also increase. When involvement year of participants increase, ownership of house also increase. It means there is significant relationship between involvement duration in micro finance and ownership of house. It shows that any type of consumption normally household expenditure base on income, when income of business/ household is increased at that time household expenditure also increased. It shows that there is positive effect of micro finance in to fulfilment of household requirements. when participant use microcredit, income of people also going to increase. when involvement year of participant going to increase, ownership of house also going to increase. It means there is significant relationship between involvement duration in micro finance and ownership of house. It shows that any type of consumption normally household expenditure base on income, when income of business/ household is increased at that time household expenditure also increased. It shows that there is positive effect of micro finance in to fulfilment of household requirements. It shown that education expenditure of children's increased per year, that increased expenditure recovered either income/ profit or loan. With the base of field observation most of the increased expenditure on children's education recovered by profit of business. When involvement year in microfinance was increased , there is easy to manage the financial resource for children's education. The study also recommends that the MFIs operating in Nepal be empowered through provision of finances which can be advanced to the locals as credit to facilitate rapid economic growth. With an elaborate MFI structure in the Nepal, the Nepalese people will be more than willing to take up the financial advances and undertake development projects.

### References

- [1]. Abdussalam, O. F. (2013). The Determinants of Women Empowerment and Its on Poverty Alleviation: A Case of Kwara State, Nigeria (A Pilot Study). *Asian Journal of Science and Humanities Vol 2, No . 4* , 341-349.
- [2]. Agbim, A. J. (2015). Micro- credit as a strategy for Poverty Alleviation Among Women Entrepreneurs in Nasarrawa State, Nigeria. *Journal of Business studies, Vol 6 No. 3, ISSN 2152-1043* , 122-144.
- [3]. Asad K. Ghalib, I. M. (2014). Microfinance and house hold Poverty Reduction: Empirical Evidence from Rural pakistan. *Oxford Development studies* , 84-104.
- [4]. Cohen, M. (1999). Opening Up the Impact Assessment Agenda. *Latin American Microfinance Meeting*. Ltin : AIMS.
- [5]. Johnson, S. a. (1997). *Microfinan and Poverty Reduction*. UK and Ireland: Oxfam.
- [6]. Khandker, S. R. (1998). *Fighting Poverty with Microcredit: Experience in Bangladesh*. New York: Oxford university Press, Inc.
- [7]. Lindgren, H. E. (2002). *Microfinance and women Empowermen in Bangladesh*. Fargo, N.D.: Noth Dakato state university.
- [8]. MkNelly, B. a. (1999). Impact of Credit with Education on Mothers and Their childrens's nutrition. *Freedom From hunger* .
- [9]. MkNelly, B. a. (1998). *Impact of Microcredit with Education on Mothers and Their children's Nutrition*. Davis C. A.: Freedom from Hunger.
- [10]. Nelson, C. B. (2000). *Learning From Client: Assessment tool for Micro finance Practitioners*. Wasington D.C.: AIMS.
- [11]. Pitt, M. M. (2003). Credit programs for the poor and the Health Status in Rural Bangladesh. *International Economic Review* , 87-118.
- [12]. Sarangi, N. (2007). *Microfinance and Rural Poor: Impact Assessment Based on Field Work in Madhya Pradesh, India*. New Delhi, India: CSRD, Jabahar Lal Neharu University.
- [13]. Wolf, H. P. (2002). *A Hand book for Social Research and Thesis writing (3rd Edition)*. Kathmandu: Buddha Academic Publisher and Distributer Pvt. Ltd, Kathmandu Nepal.