



Microfinance as an Alternative Mechanism for Socio-Economic Development of Rural Communities: A Study of Chhattisgarh

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Abstract

Microcredit has emerged as a significant tool for poverty alleviation in poor communities of developing countries, particularly in rural area of Chhattisgarh. Poverty is one of the dangerous situations as it deprives individuals of their basic needs of fundamental rights such as access to food, shelter, education, good health, freedom of speech, and democracy—which are essential for a better quality of life. It is not only the responsibility of the state or central government but also of society as a whole to provide comprehensive services that extend beyond mere credit facilities for the poor. Through this research study Researcher emphasizes that education must be integrated into every development agenda, as it is one of the keys to determinant emphasize positive change and ensuring sustainable development of the rural population. An integrated approach, combining microcredit services with education, can provide a more effective solution to the challenges faced by rural and deprived communities. Researcher has used both primary and secondary data sources, to explore how education and microfinance, when used together, can contribute significantly to poverty alleviation in rural India.

Keywords: Alternative approach, education and microfinance, rural population

Introduction

India is like a continent of continents it means it can be divided into number of continent and subcontinents with a diversity of Region, religion, sub religion culture, caste system, language, and with a wide geographical location. In developing country like India more than 60% population lives in rural and village area. While the share of Chhattisgarh is around 76–77%. It means 76–77% Chhattisgarh's population lives in rural areas. In which 30.6% of the state's population belongs to Scheduled Tribes caste or STs. While the population of Schedule caste is 12–13%. It means population of SCs and STs are near about 44% which lives in rural area, whose major occupation is Agriculture: like paddy (rice) is the staple crop, leading to Chhattisgarh being called the "Rice Bowl of India

According to (Census 2011, estimates similar till date). Chhattisgarh, one of India's resource-rich yet socio-economically backward states, continues to face pressing development challenges such as poverty, inadequate infrastructure, and limited skilled human resources. These issues are particularly severe in the rural and tribal-dominated regions of the state, where the majority of people depend on agriculture, forest produce, and informal sector activities for survival. Poverty and unemployment remain widespread, especially among tribal communities, women, and landless laborers.

In response, both the state and national governments have placed poverty alleviation, education, and livelihood generation at the center of their development agendas. Within this framework, microfinance has emerged as a key instrument of rural empowerment in Chhattisgarh. Through initiatives such as Self-Help Groups (SHGs) promoted under the National Rural Livelihood Mission (NRLM), rural women are gaining access to small loans that enable them to start income-generating activities like poultry farming, handicrafts, food processing, and small-scale trade.

Institutions such as the Chhattisgarh Rajya Gramin Bank, cooperative banks, and microfinance companies, along with NGOs, have been instrumental in extending micro-credit to marginalized communities. These initiatives are particularly impactful for women, who have demonstrated success in utilizing microfinance to establish small enterprises, thereby contributing to household income and improving social status.

Despite these positive stories, rural poverty remains a critical challenge in Chhattisgarh. Many households continue to be vulnerable to economic fluctuations, displacement due to mining and industrial projects, and natural calamities such as floods or droughts. Education alone has not been sufficient to address these structural issues, which is why microfinance has been integrated into broader empowerment strategies. Innovative approaches, combining financial inclusion with skill development and community-based capacity building, are being adopted to ensure that microfinance initiatives create sustainable livelihood opportunities.

Thus, in the case of Chhattisgarh, microfinance has not only provided access to financial resources but has also emerged as a tool for women's empowerment, poverty reduction, and inclusive rural development, though much remains to be done to achieve long-term socio-economic transformation.

For decades, Microfinance Companies (MFCs) have played an important role in addressing rural poverty by providing small-scale credit facilities to grassroots communities. Many of these institutions have established strong reputations and financial sustainability, earning recognition as effective tools for poverty reduction. Their primary objective is to support the sustainable development of marginalized communities, with special emphasis on empowering women, who have successfully used microfinance to launch income-generating enterprises.

Despite these successes, poverty in rural areas persists as a major challenge in developing nations like India. Research by Ferreira and Ravallion (2008) highlights that nearly one billion people in developing countries live on less than one dollar per day. Similarly, Sachs (2005) found that over eight million people die annually worldwide due to extreme poverty. In India, rural communities remain especially vulnerable to economic fluctuations, social inequalities, and natural disasters.

While education has been promoted as an empowerment tool, it has not always been sufficient to reduce poverty in rural areas. Therefore, microfinance has been integrated into development strategies to complement educational initiatives. This integration reflects a broader trend of adopting innovative approaches—both inspired by global practices and shaped by local realities—to address the limitations of traditional poverty alleviation measures.

MFIs Data indicators for Chhattisgarh

1. Bharat Microfinance Report 2023

- In March 2023 especially in Chhattisgarh 27 lakh *loan accounts had*, up from 25 lakh in March 2022. (Scribd)
- It is very clear that “loan account” is not necessarily the same as “borrower” because might be a fair enough possibility that single borrower may have multiple loan accounts. Scribd+1

2. Quarterly Microfinance Data (FY 2023-24, March '24)

- MFs data indicators shows, number of Loan Accounts across States/UTs” dataset, Chhattisgarh had 25.74 lakh loan accounts in March 2024, Indicators shows that these accounts are slightly lower than Mar 2023 (26.05 lakh). Scribd

3. Self-Help Group (SHG) / Bank Linkage and Other Microfinance-Adjacent Programmes

- Under programmes like DAY-NULM and SHG bank-linkage, these linkages indicate the numbers for SHGs formed, households mobilized etc., which are not directly the same as microcredit borrowers. From the report of Press Information Bureau of Chhattisgarh had ~11,323 loans disbursed to SHGs under bank linkage programmes since 2014 up to mid-2024. Report also indicates that, number of SHGs promoted and households mobilized in Chhattisgarh for 2022-23 vs 2023-24 as a comparison report are given: e.g. in 2023-24 about 18,572 SHGs were promoted, and 300,282 households mobilized.

Literature Review

According to the study of Otero (1999) “*microfinance, at its core, combats poverty.*” In her study She explains that microfinance provides access to productive capital for the poor and slum people, which, when combined with human capital (through education livelihood training facility) and social capital (through local microfinance organizations called as MFIs), enables individuals and communities to gradually move out of poverty stage.

Goankar (2001), highlighted the role of Self-Help Groups (SHGs) by his study he gave a framework in reducing poverty and unemployment basically in rural areas. Through the medium of her, SHGs not only promote economic growth of rural people but also facilitate social change within the rural communities.

Verma (2008), in her research study and basis of findings of the study concludes that microfinance has the potential to play a major role in poverty alleviation of rural areas and contribute more in rural development, making it an essential component of inclusive growth strategies.

In (2010) Similarly, Kamath, in her research study of doctoral thesis “*A Study of Financial Inclusion on Below Poverty Line Families in Gulbarga District, Karnataka*”, she found a significant gap between financial inclusion efforts and the awareness levels of rural households. The findings of this thesis underscore that little awareness among the poor restricts the scope and effectiveness of microfinance interventions.

Karang in year (2013) study highlights that then-President Susilo Bambang Yudhoyono of Indonesia received international recognition for outstanding achievements in microcredit programs. This recognition clearly shows as one of the indicators that microfinance initiatives have been widely acknowledged for its success story in reducing poverty and unemployment globally, not only in India.

According to the study of Ravikumar (2016) on microfinance the findings significantly empowered women rural entrepreneurs by supporting their business activities and enhancing their social and economic status. Through MFIs women have been able to gain greater independence in economic activity within the rural communities.

According to Chhattisgarh (2023–24) accounts reports, in March 2024, Chhattisgarh had approximately counted 25.74 lakh loan accounts (Microfinance Institutions Network, 2024).

According to the Bharat Microfinance Report, 2023, (Sadhan, 2023), Chhattisgarh recorded about 27 lakh loan accounts in March 2023.

SHG report released by Press Information Bureau, 2024a). Chhattisgarh (2022–24), in financial year 2023–24, about 18,572 SHGs were promoted and over 300,000 households were mobilized in Chhattisgarh

For DAY–NULM loan disbursement data (2014–2024), released by Press Information Bureau, 2024b since in year 2014, more than 11,000 SHG loans have been disbursed in the state under DAY–NULM.

Objective of the Study

To study the impact of micro financial services initiatives on socio –economic development of rural population of Chhattisgarh

Research Methodology

The present study is descriptive in nature and employs the sample survey method to examine credit accessibility in Chhattisgarh. Both primary and secondary data sources have been utilized to ensure comprehensive analysis. The primary data was collected from 485 respondents through a structured questionnaire, administered across selected districts of Chhattisgarh. To capture respondents’

perceptions, a five-point Likert scale (ranging from 5 = strongly agree to 1 = strongly disagree) was used. For primary data collection, the simple random sampling technique was applied, ensuring respondents were chosen irrespective of age, educational background, or income level, thereby providing a more representative outlook. The study regions include Bilaspur, Raigarh, Bastar, Rajnandgaon, Ambikapur, and Pendra.

Secondary data was collected from multiple authentic sources, such as journals, e-journals, research articles, newspapers, books, and reports published by institutions like the Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD). These sources provided contextual understanding and supported the analysis of the findings derived from primary data.

Chhattisgarh remains economically underdeveloped, its rural population lacking access to formal banking services, except for inclusion initiatives such as the Pradhan Mantri Jan Dhan Yojana. In this context, the absence of an effective formal credit delivery system has emerged as a significant barrier to financial inclusion and rural development. The study highlights that formal credit institutions play a crucial role in addressing financial exclusion, particularly in remote and marginalized regions of the state.

By integrating insights from both primary and secondary data, the study contributes to understanding the challenges and opportunities of financial access in Chhattisgarh. The findings aim to provide useful implications for policymakers, financial institutions, and development agencies seeking to strengthen rural credit delivery mechanisms.

Data Analysis

Hypothesis of Study

H₀: There is no significant association between Micro-financial Services Initiatives and socio- economic development of Rural population of Chhattisgarh.

Table 1:

Items	Cronbach’s Alpha value	No. of items
Socio and Economic	0.782	11
Service Satisfaction	0.801	12
Asset based Indicator	0.790	15

Source: primary data, Cronbach’s Alpha Scores (Validation of the Questionnaire)

1. Social and Economic Parameters

Socio economic ie Social and Economic is one of the genuine indicators to map the impact of MFI in Rural Development. The value of Cronbach’s Alpha 0 .782 shows highly satisfying scores to carry on the research in right direction.

2. Service Satisfaction

The construct of Service Satisfaction emerges as a significant dimension within the study, yielding a Cronbach’s Alpha coefficient of 0.801. This value surpasses the generally accepted threshold of 0.70, thereby confirming the internal consistency and reliability of the measurement scale. The high score further underscores the robustness of the items selected for capturing respondents’ perceptions of

service quality and satisfaction levels with micro-financial interventions. Such reliability provides a sound empirical basis for advancing subsequent analyses, as it validates the appropriateness of the measurement items in reflecting the underlying construct of service satisfaction.

3. Asset-Based Indicator

The Asset-Based Indicator serves as an essential variable for assessing the tangible economic impact of micro-financial services, particularly in terms of asset creation and accumulation. The results demonstrate a notable difference in the respondents’ asset profiles before and after their engagement with micro-financial institutions. The Cronbach’s Alpha value of 0.790 establishes a convincing level of reliability, affirming that the selected items consistently represent the construct under study. This finding not only validates the measurement framework but also highlights the efficacy of the instrument in capturing variations in asset generation attributable to financial inclusion initiatives. Consequently, the indicator provides valuable insights into the role of microfinance in enhancing the asset base of the targeted population, thereby contributing to broader socio-economic development outcomes.

Table 2: Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Satisfaction with MFS * Improvement in Livelihoods	485	100.0%	0	0%	485	100.0%

Analysis: Out of 485 respondents, 100% valid responses were obtained for the relationship between Satisfaction with Microfinance Services (MFS) and Improvement in Livelihoods

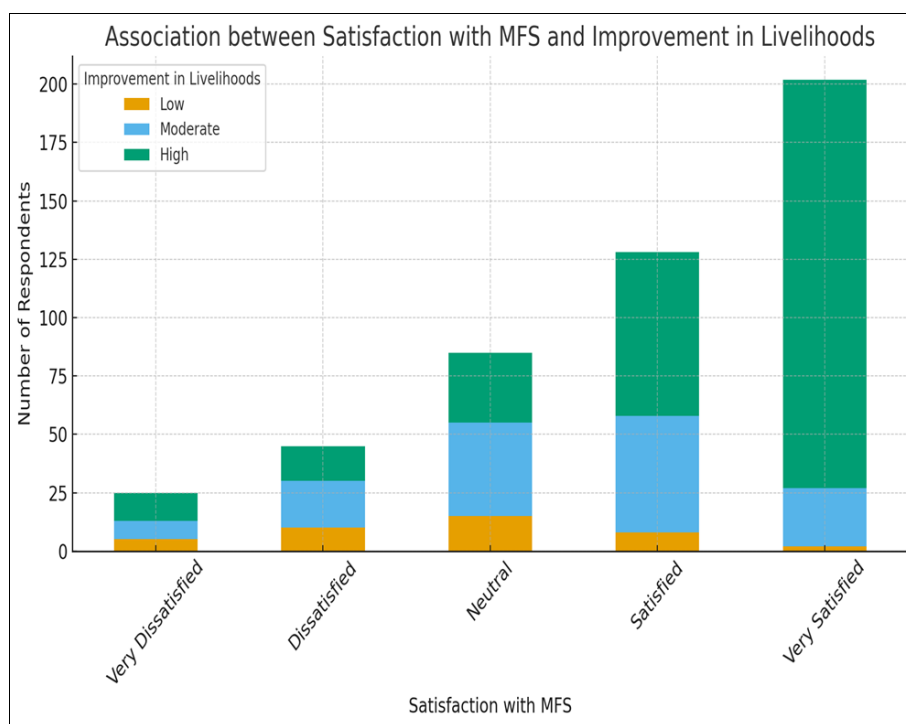
Table 3: Chi-Square Tests

	Value	df	Asymp. Sig. (2- sided)
Pearson Chi-Square	1.506E2a	9	0.001
Likelihood Ratio	59.262	9	0.002
Linear-by-Linear Association	12.523	1	0.001
No. of Valid Cases	485		

Analysis: Chi Square test has been used to see the association between Micro-finance service initiatives and socioeconomic development of rural population. Pearson Chi-Square Value = 150.6 (df = 9, p = 0.001).

Since the p-value is less than 0.05, the relationship between Satisfaction with MFS and Improvement in Livelihoods is statistically significant. Likelihood Ratio = 59.262 (p = 0.002), also significant, confirming robustness. Linear-by-Linear Association = 12.523 (p = 0.001) shows a positive association—as satisfaction with MFS increases, livelihood improvement also increases.

Finding: On the basis of analysis we can say that there is a significance association between Micro-financial Services with MFS and improvement in their livelihood. of rural population in selected districts of Chhattisgarh. The test results suggest that higher satisfaction levels with microfinance services lead to better livelihood outcomes



Conclusion

On the basis of finding we can say Microfinance institutions tries to overcome the short comings and failures of the existing financial institutions and development programs by providing adequate and hassle-free finance in rural area to the very needy people and also acts as gap filler in the formal institutional network for providing small finance to poor rural population.

Suggestion and Implication

The findings reveal a strong and statistically significant association between satisfaction with microfinance services (MFS) and improvement in livelihoods. This suggests that enhancing service quality, designing flexible loan products, and providing complementary training in financial literacy and entrepreneurship can substantially strengthen the positive impact of MFS. From a policy perspective, the results imply that microfinance should be viewed not merely as a financial mechanism but as an integrated tool for socio-economic development, particularly in rural and marginalized communities. For microfinance institutions, client satisfaction emerges as a critical performance indicator that directly contributes to sustainable livelihood outcomes. Practically, the integration of digital platforms, regular feedback systems, and inclusive outreach strategies may further consolidate the role of MFS in poverty reduction and rural development.

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