CHAPTER 4

OBJECTIVES, HYPOTHESES, AND DEVELOPMENT OF CONCEPTUAL FRAMEWORK
CHAPTER 4: OBJECTIVES, HYPOTHESES, AND DEVELOPMENT OF CONCEPTUAL FRAMEWORK

4.1. OVERVIEW

This chapter further develops the literature gap by focusing on how microfinance has helped in improving the social, economic and capability well-being of the people with the help of existing publications in this area. This chapter provides the objectives and corresponding hypotheses (where applicable). A conceptual framework has been included in this chapter by referring to the key literature identified in the previous chapter. The conceptual frameworks have been treated as a guide for the remaining portions of this research.

4.2 OBJECTIVES OF THE STUDY

Microfinance has been in the news for wrong reasons in the recent past. The pursuit of economic profit rather than focus on socio-economic development by few MFIs has been cited as the causes for the negative connotation surrounding microfinance especially in India (Haldar & Stiglitz, 2015, 2016). As suggested earlier, most studies of microfinance impact in India have focused on the Western and Southern parts of India. These regions of India had a significant exposure to microfinance and academic studies focusing on the Socio Economic Upliftment of people living below poverty line. However, the eastern region of India including the state of Jharkhand has not seen the same level of attention both regarding exposure and academic studies. This study studies the eastern Indian state of Jharkhand comprising of a significant tribal and backward castes population.

The study attempts to create a comprehensive understanding of the various dimensions of impact related to microfinance instruments. After isolating such key dimensions of impact, the study measures the identified dimensions within the Deoghar district of Jharkhand. It
uses, mixed method which is a mix of Qualitative and Quantitative techniques. It is used to identify and measure various dimensions of impacts related to the availing of microfinance loans.

The first section of the study deals with an inductive interview and caselet based Qualitative approach. By studying both success and failure stories, the qualitative section attempts to isolate themes and dimensions related to microfinance impact and poverty. The subsequent sections utilize the identified dimensions of microfinance impact and measure them using a survey instrument. The qualitative themes identified in the first section of the study were used to create the survey instrument. The data collected through the administration of the survey instrument are then analyzed using various statistical techniques. Before presenting the details of the findings, this section presents key objectives.

The present research has been undertaken by keeping following objectives in mind:

1. Exploring the important latent variables relevant in the research setting (Deoghar district, Jharkhand) which are potentially important in assessing the impact of microfinance offerings across social, economic and capability dimensions. *(Study 1)*

   (The exploratory section of the thesis attempts to inductively understand emergent themes from a set of qualitative interviews of success and failure stories in microfinance loan use within the Deoghar district. This section attempts to isolate key dimensions of microfinance loan impact to be used later in the measurement sections of the study).

2. Exploring the various social, economic and capability dimensions of microfinance and measuring its impact on the well-being of the respondents in Deoghar district, Jharkhand, India *(Study 2 & 3)*.

3. Understanding the role of the demographic, social and geographic factors like age, caste, distance from the city centre, education, loan cycle, loan type etc. on the impact
of microfinance loans with Special Reference to Deoghar District in Jharkhand, India (Study 2 & 3).

4. To study the impact of microfinance in the reduction of migration in the Deoghar district, Jharkhand, India (Study 2 & 3).

5. Understanding the determinants of customer satisfaction in Rural Self Help Groups-Bank Linkage Programme by doing an empirical study of Deoghar district in Jharkhand, India (Study 4).

6. Differentiating the impact on groups of respondent belonging to different poverty levels in the Deoghar district of Jharkhand, India (Study 4).

4.3 HYPOTHESES:

**STUDY 1**: Study 1 is a qualitative exploration to extricate key latent impact dimensions from the caselets. Hence no hypotheses assumed in this study. The extricate key latent impact dimension identified in this study are distance from the city centre, migration, family and social support, etc., the other studies (Study 2, 3 and 4) focuses on the measurement and further analysis of the impact, studied in the research setting.

**STUDY 2**: This study measures the impact of the microfinance on the social, economic and capability well-being of people living below poverty line in the Deoghar district of Jharkhand. A comparison is done between microfinance borrower and a control group that did not receive any microfinance loans. The hypotheses assumed for this study is presented below:

**Hypothesis 1**: The Microfinance loans use has led to an increase in the income of the respondents in their community in Deoghar, Jharkhand.

**Hypothesis 2**: The Microfinance loans use has led to an increase in the expenses of the respondents in their community in Deoghar, Jharkhand.
**Hypothesis 3:** The Microfinance loans use has resulted in a decrease in the migration of the respondents in their community in Deoghar, Jharkhand.

**Hypothesis 4:** The Microfinance loans use has increased the educational qualifications/vocational training of the respondents in their community in Deoghar, Jharkhand.

**Hypothesis 5:** The Microfinance loans use has led to an increase in the working understanding of skill/trades/crafts by the respondents in their community in Deoghar, Jharkhand.

**Hypothesis 6:** The Microfinance loans use has led to an increase in the social status enjoyed by the respondents in their community in Deoghar, Jharkhand.

**Hypothesis 7:** The Microfinance loans use has led to an increase in the status enjoyed by the respondents in their family in Deoghar, Jharkhand.

**STUDY 3:** This study continues the measurement of microfinance impact by comparing the breakups of impact measurement based on the categories of various grouping variables like distance from city center, loan type, age group, etc. for the Microfinance borrower respondent group (368 respondents). The hypotheses in this study assume that there is no difference within each grouping variable as the null hypothesis. As we do not have significant input from the existing literature on the relationship between the grouping and impact variables, we present the null hypothesis arguments below.

**Hypothesis 1:** The impact variables across Social, Capability and Economic well-being have no difference across the grouping variable: distance from city center (\(<=10\) Km, 11-20 Km, 21-30 Km and 31-40 Km).

**Hypothesis 2:** The impact variables across Social, Capability and Economic well-being have no difference across the grouping variable: loan type (Self Help Group [SHG]/Joint Liability Group [JLG]).
**Hypothesis 3:** The impact variables across Social, Capability and Economic well-being have no difference across the grouping variable: age groups (≤30 years, 31-40 years, 41-50 years and ≥50 years).

**Hypothesis 4:** The impact variables across Social, Capability and Economic well-being have no difference in the whole grouping variable: Caste (Scheduled Caste (SC), Scheduled Tribe (ST) and Other Backward Castes (OBC)).

**Hypothesis 5:** The impact variables across Social, Capability and Economic well-being have no difference in the whole grouping variable: loan cycle (1, 2, 3, and 4).

**Hypothesis 6:** The impact variables across Social, Capability and Economic well-being have no difference in the whole grouping variable: education (Illiterate, Till Class X, High School and Graduate).

Although the impact variables (economic, capability and social well-being) have been grouped in the hypotheses presented above, each impact variable has been independently analyzed across the six grouping variables like loan types, distance from the district headquarter, age etc. The analysis of study 3 will present results for each impact variable separately.

**STUDY 4:** This is an empirical study to find out the Determinants of Customer Satisfaction in Rural Self Help Groups-Bank Linkage Programme from the same set of respondents who were used for the study 2 and 3, in the Deoghar district of Jharkhand, India.

**Socio Economic Profile:**

H1A: There will be a negative relationship between customer age and Overall Customer Satisfaction.

H1B: There will be a negative relationship between underprivileged caste membership and Overall Customer Satisfaction.
H1C: There will be a positive relationship between education level and Overall Customer Satisfaction.

H1D: There will be a negative relationship between MPCE and Overall Customer Satisfaction.

H1E: There will be a negative relationship between the distance from city center of the survey respondent’s address and Overall Customer Satisfaction.

*Loan Dynamics:*

H2A: There will be a positive relationship between increasing SHG Age and Overall SHG-BLP Customer Satisfaction.

H2B: There will be a positive relationship between increasing Loan Amount and Overall SHG-BLP Customer Satisfaction.

H2C: There will be a positive relationship between Training provided and Overall SHG-BLP Customer Satisfaction.

H2D: There will be a positive relationship between Ease of Processing/Bureaucracy and Overall SHG-BLP Customer Satisfaction.

*Loan Use:*

H3A: There will be a positive relationship between Income Generating Use and Overall SHG-BLP Customer Satisfaction.

H3B: There will be a positive relationship between the choice of a New Occupation (New vs. Traditional Business) and Overall SHG-BLP Customer Satisfaction.
4.4. PREVIOUS AVAILABLE CONCEPTUAL FRAMEWORKS IN MICROFINANCE.

Various previous studies on microfinance have focused on accessing its impact. Hence, there are many available conceptual frameworks which allow one to study the impact of microfinance. However, there are few previous study on the theoretical framework, and empirical study focusing on the effectiveness of microfinance services especially in the eastern Indian region.

The preliminary framework proposed by Sebstad, Neil, Barnes, & Chen, 1995 had identified four domains of microfinance interventions namely individuals, households, enterprises, and community. Some of the previous studies on microfinance impact conceptually considered important in the context of present study have been presented in the table below:
### TABLE 4.4.1 Previous Studies on Microfinance Impact Conceptually:

<table>
<thead>
<tr>
<th>AUTHOR</th>
<th>YEAR</th>
<th>CONCEPTUAL FRAMEWORK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sebstad et al</td>
<td>1995</td>
<td>They identified four domains of microfinance interventions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Individuals,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Households,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Enterprises</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Community</td>
</tr>
<tr>
<td></td>
<td></td>
<td>They proposed three impact domains (i.e., the areas where impacts have been expected) at the household level, namely:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Income,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Expenditure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Assets.</td>
</tr>
<tr>
<td>Barnes</td>
<td>1996</td>
<td>He asserted that assets are a crucial element of household welfare. However, the asset of a household may have been accumulated over an extended period. Thus, if not treated appropriately (e.g., using longitudinal data), this variable may provide a misleading measure of the impacts due to differences in asset values among households before the intervention.</td>
</tr>
<tr>
<td>Dunn et al</td>
<td>1996</td>
<td>Argued that microfinance impacts be desirable if they help households reduce <em>ex-ante</em> exposure to risk and provide better strategies for the management of <em>ex-post</em> losses.</td>
</tr>
<tr>
<td>Chen</td>
<td>1997</td>
<td>Outlined a framework for individual-level impact assessment, consisting of four pathways through which impacts may be created, including material (e.g. income,</td>
</tr>
<tr>
<td>Schreiner</td>
<td>2003</td>
<td>Provided an example of a useful tool to judge the worthiness of microfinance programs using cost-effectiveness analysis.</td>
</tr>
<tr>
<td>----------</td>
<td>------</td>
<td>-------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Hudak</td>
<td>2012</td>
<td>Impact of regulatory environment and financial systems on microfinance impact.</td>
</tr>
<tr>
<td>Ganesh and Singh</td>
<td>2015</td>
<td>Measuring microfinance’s social impact using Euclidean distance based approach between ideal and actual impact.</td>
</tr>
<tr>
<td>Alimukhamedova N, Filer R, Hanousek J.</td>
<td>2015</td>
<td>Microfinance impact may be dependent on the geographical distance between the household and the financial institution.</td>
</tr>
</tbody>
</table>

*Source: (The AIMS Team, 2001); (Dunn, 1996); (Ganesh, 2015)*
**2 X 2 Window on Effects of Microfinance**

The difference between impacts and effectiveness of microfinance analysis is illustrated in the table below.

**TABLE 4.4.2: 2 X 2 Windows on Effects of Microfinance**

<table>
<thead>
<tr>
<th></th>
<th>Expected</th>
<th>Unexpected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>Planned effects</td>
<td>Unplanned direct effects</td>
</tr>
<tr>
<td></td>
<td>e.g.:</td>
<td>e.g.:</td>
</tr>
<tr>
<td></td>
<td>- Increase income/expenditure of member households and individuals</td>
<td>- Increase “debt trap” for borrowers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Increase workload for women</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Possible increase in child labour</td>
</tr>
<tr>
<td>Indirect</td>
<td>Effects through other channels</td>
<td>Unplanned distance effects</td>
</tr>
<tr>
<td></td>
<td>e.g.:</td>
<td>e.g.:</td>
</tr>
<tr>
<td></td>
<td>- More jobs created for non-members</td>
<td>- Increase participation of formal banks in microfinance market</td>
</tr>
<tr>
<td></td>
<td>- Increase in solidarity in the community</td>
<td>- More involvement of the poor and their organisations in policy making dialogues</td>
</tr>
</tbody>
</table>

*Source: Adapted from Johnson (1998)*

**Quadrant I:** Microfinance can create direct and expected effects by helping poor clients to have enough capital to invest in profitable projects to earn more income.

**Quadrant II:** Microfinance may also create unexpected direct effects (Quadrant II) such as “debt trap” for borrowers whose investments failed to generate income.

**Quadrant III:** Microfinance creates indirect effects such as borrowers employing non-borrowers in their projects. Also through mediation of group activities, microfinance may promote solidarity among community members.

**Quadrant IV:** Some indirect and unexpected effects may be created such as formal banks becoming interested in joining the microfinance market.

This framework suggests that apart from direct and planned economic benefits from microfinance there are other benefits like social and capability benefits.
Microfinance and the Household Economic Portfolios

Household resources have been classified into three groups: human capital, physical capital and financial capital. This resource pool includes the household endowment and that mobilized from external sources, such as microfinance and social networks. Households use their resource pool for three sets of activities: consumption, production, and investment (Figure 4.4.1). Consumption includes activities to satisfy needs and wants using items such as food, clothing, healthcare, education, and entertainment. Consumption activities often do not contribute directly to the accumulation of physical and financial capital of households. The fig 4.4.1 below explains it.

FIGURE 4.4.1: Microfinance and the Household Economic Portfolios


4.5 CONCEPTUAL FRAMEWORK DEVELOPED BY THE RESEARCHER

During the course, this research study two conceptual frameworks has been developed by the researcher. Both of them are discussed below:
**Framework 1**

The framework 1 deals with the analysis of the impact of the microfinance on the social, economic and capability well-being of the people residing below poverty line in the Deoghar district of Jharkhand, wherein age, caste, distance from the district headquarter, etc. are the socio economic demographics. The loan cycle /amount and the type of group, i.e., SHG/JLG shows the loan details. Moreover, further its impact (microfinance) is measured on the parameters like saving, income, expense, social status, migration, and education.

**FIGURE 4.5.1: Conceptual Framework for Study 2 and 3**

**Source: Developed by the Researcher**

**Framework 2**

This framework is developed to understand the various aspects of the process of microfinance service delivery and the eventual generation of customer satisfaction. It has been assumed here that significant aspects affecting the delivery and use of microfinance loans by borrowers are the socio-economic profile of the consumers, the loan dynamics, and the actual loan use. Each of these three aspects can be measured by different variables like Age
of the borrower, caste, loan amount, income generating use, etc. For a full description of the variables, please refer to the analysis of study 4.

FIGURE 4.5.2: Conceptual Framework for Study 4

Source: Developed by the Researcher