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A Comparative Study on the Utilisation of Micro Credit for Consumption and Income Generation in Rural India

Dr. Ravindra A. Jadhav

(Associate Professor), Faculty of Commerce & Management, K. J. Somaiya College of Arts, Commerce & Science, Kopargaon, Maharashtra, India, ravindrajadhavitc@gmail.com

ABSTRACT

This study explores how Self Help Group (SHG) members in Ahilyanagar district, Maharashtra, utilise micro credit for consumption and income-generating purposes. The study, based on primary data from 350 respondents collected through structured questionnaires, analyses whether credit is being used productively or diverted toward consumption. Descriptive statistics and Friedman's Two-Way Analysis of Variance by Ranks were applied to identify utilisation patterns. The findings reveal that micro credit, though designed as a tool for income generation, is predominantly used for household consumption and non-productive activities. The paper emphasises the need for improved financial literacy, institutional support, and entrepreneurial training to enhance credit productivity and long-term sustainability.

Keywords: Micro credit, Self Help Groups, Financial inclusion, Rural development, Women empowerment, Ahilyanagar district, Income generation, Consumption patterns

Introduction:

Micro credit has become an important instrument for promoting rural development and financial inclusion in developing countries like India. It provides small loans to the poor, especially women organised into Self Help Groups (SHGs), enabling them to undertake small-scale business or income-generating activities. In the Indian context, micro credit through the SHG–Bank Linkage Programme has been one of the largest poverty alleviation strategies supported by NABARD. However, in practice, many beneficiaries divert micro credit toward short-term consumption needs such as health expenses, household repairs, education, and festivals, rather than productive activities. This research focuses on the Ahilyanagar district of Maharashtra, where SHGs are widespread, to examine the dual nature of micro credit utilisation and its implications for sustainable rural livelihoods.

Review of Literature:

Yunus (2007) conceptualised micro credit as a tool for empowerment, citing Grameen Bank's success in lifting rural families out of poverty. NABARD (2023) highlighted that loan diversion and over-borrowing remain major challenges in India's microfinance sector. Sharma and Singh (2021) emphasised that while micro credit increases women's participation in the economy, inadequate financial training reduces its impact. Das and Kumar (2019) found that awareness of loan management directly influences productive credit utilisation. Gupta and Rani (2020) examined SHGs in Maharashtra and concluded that only around 40% of loans are invested in income-generating activities. This literature collectively underscores the need for contextual studies, like the present one in Ahilyanagar, to evaluate utilisation patterns at the local level.

Objectives of the Study:

1. To examine the extent of micro credit utilisation for consumption purposes among SHG members in Ahilyanagar district.
2. To analyse the utilisation of micro credit for income-generating activities.
3. To compare both patterns of utilisation using statistical analysis.
4. To suggest strategies to enhance the productive use of micro credit and strengthen rural financial inclusion.

Research Methodology:

The study is based on primary data collected from 350 SHG members across selected villages in Ahilyanagar district using a structured questionnaire. A simple random sampling method ensured fair representation of different socio-economic backgrounds. Descriptive statistics (mean, median, and standard deviation) were used to interpret utilisation trends, while Friedman's Two-Way Analysis of Variance by Ranks tested the significance of differences in utilisation patterns. Secondary data were sourced from NABARD, RBI, and previous research studies to complement the primary findings.

Data Analysis and Interpretation:

The analysis of responses from 350 SHG members revealed contrasting utilisation trends between consumption and income-generating purposes. The following table summarises the descriptive statistics derived from the primary data.

Category	**N**	**Mean**	**Std. Deviation**	**Minimum**	**Maximum**	**Median**
For Consumption Purpose	350	3.32	1.48	1	5	4.00
For Income Generating Activities	350	2.82	1.48	1	5	2.00

The mean value for consumption (3.32) exceeds that for income generation (2.82), and the median of

4.00 for consumption versus 2.00 for income generation reflects the same pattern. This suggests that micro credit is primarily used to address immediate family and social needs.

Category	**Mean Rank**
Consumption Purpose	1.58
Income Generating Activities	1.42

The Friedman Rank Test result ($p = 0.01 < 0.05$) confirms a statistically significant difference in utilisation patterns, indicating that credit is more often used for consumption purposes.

Major Findings:

1. 55% of respondents reported frequent use of micro credit for consumption purposes such as health care, education, and food expenses.
2. Only 20% of SHG members consistently utilised micro credit for income-generating activities like small business or dairy farming.
3. The mean and median scores confirm higher consumption use across the Ahilyanagar district.
4. Women borrowers often prioritise household welfare over entrepreneurship due to social and family obligations.
5. The absence of business training limits the potential for income-generating activities.
6. Loan diversion occurs mainly among low-income and irregularly employed households.
7. Delayed income returns and seasonal work cycles discourage investment in enterprises.
8. Lack of continuous monitoring from microfinance institutions weakens credit discipline.
9. High interest rates and limited repayment flexibility lead borrowers to use loans for immediate consumption.
10. Despite these issues, micro credit still enhances self-confidence and social participation among women in rural areas.

Suggestions:

1. Develop policies linking micro credit with government livelihood programs such as NRLM and DAY.
2. Introduce interest subvention schemes for productive loans with proven utilisation.
3. Create district-level monitoring cells to review loan deployment in SHGs.
4. Banks and MFIs should provide pre-loan orientation and business training to SHG members.
5. Regular monitoring and follow-up visits should be conducted by lending institutions.
6. Develop partnerships between NGOs, cooperatives, and financial institutions for holistic SHG development.
7. Encourage SHG members to prepare micro business plans before applying for loans.

8. Organise periodic workshops on budgeting, record keeping, and income diversification.
9. Promote collective enterprises like group farming or craft units to ensure steady income sources.

Policy Implications:

The findings indicate that policymakers must move beyond credit provision to capacity enhancement. Integrating financial services with livelihood training, women's skill development, and digital banking literacy can substantially improve productive loan use. Government and NGOs should collaborate to ensure that credit supports entrepreneurship rather than temporary consumption relief.

Conclusion:

The study concludes that micro credit has proven to be a powerful catalyst for women's empowerment and financial inclusion in rural India. However, in Ahilyanagar district, its potential for generating sustainable livelihoods remains underexploited due to high dependency on credit for consumption. To transform micro credit into a long-term development tool, stakeholders must adopt an integrated approach that combines credit, training, supervision, and market linkages. Enhancing financial literacy and aligning repayment structures with rural income cycles can improve credit productivity. Thus, the success of micro credit depends not merely on access to finance, but on the creation of an enabling ecosystem that nurtures entrepreneurship and sustainable development.

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