© AUG 2026 | IRE Journals | Volume 10 Issue 2 | ISSN: 2456-8880
DOI: https://doi.org/10.64388/IREV10I2-1722470

Microfinance and its Impact on the Rural Sector- A Study of Mirzapur District, Uttar Pradesh

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Abstract- This paper investigates how microfinance, channelled chiefly through Self-Help Groups (SHGs), has affected household welfare in a poor, predominantly agrarian district of eastern Uttar Pradesh. Drawing on a field survey conducted in Mirzapur district in association with the microfinance institution CASHPOR, the study combines an exploratory research design with descriptive statistical analysis of primary data gathered from 100 SHG member-beneficiaries and 10 programme officials and non-officials, spread across 10 SHGs in 4 villages of two development blocks (Mirzapur City and Marihan). This is triangulated against secondary data drawn from CASHPOR's operational records and national-level microfinance statistics. The evidence points to a modest but tangible improvement in beneficiary households following SHG membership — higher savings discipline, wider use of institutional rather than informal credit, and additional annual income of roughly Rs. 2,000–4,000 that respondents directed mainly toward child nutrition and healthcare. At the same time, the study documents structural frictions that blunt this impact, including low female literacy, husband-dominated control over household spending, slow bank-linkage processing, and thin capacity-building support for members. The paper closes with a set of practical recommendations for deepening SHG outreach and strengthening the credit-delivery chain in the district.

Keywords: microfinance, self-help groups, shg-bank linkage programme, rural credit, women's empowerment, financial inclusion, mirzapur

I. INTRODUCTION

Poverty-reduction strategies that leave women out of the picture address, at best, half the problem — a point long recognised in India's rural development discourse but unevenly acted upon. Women constitute close to half the country's population, yet formal development programming has repeatedly failed to reach them on equal terms. One institutional response to this gap has been the spread of Self-Help Groups (SHGs): small, voluntary, member-owned savings-and-credit associations formed with the facilitation of non-governmental organisations, which allow rural women to pool resources, build a track record of financial discipline, and negotiate as a collective rather than as isolated, easily exploited individual borrowers.

The premise underlying microfinance is straightforward — expand poor households' access to credit and other financial services, and at least some of them will be able to start or grow a small enterprise, smoothing consumption and gradually working their way out of poverty (Morduch, 1999; Yunus, 1999). India's own experience with this model, built around NABARD's SHG-Bank Linkage Programme launched in 1992, has scaled into what is now widely described as the largest microfinance initiative anywhere in the world (Harper, 2002). Whether this scale has translated into a proportionate improvement in the lives of borrowers is, however, an empirical question rather than a foregone conclusion — the literature is notably divided on how much of the promised impact actually materialises for the poorest clients (Kabeer, 2005). The present study takes up that question at the district level, examining what SHG membership has, and has not, changed for a sample of rural women in Mirzapur.

1.1 Study Context: CASHPOR and Mirzapur District

The primary data underpinning this paper were collected in partnership with CASHPOR Financial and Technical Services (CFTS), a microfinance provider founded in 1996 specifically to displace exploitative moneylenders as the main credit source for poor rural women. Its lending operation was later reorganised under CASHPOR Micro Credit (CMC), incorporated in December 2002 as a Section 25 (not-for-profit) subsidiary of CFTS. What distinguishes CASHPOR within India's crowded microfinance landscape is a deliberate poverty-targeting methodology that screens for and prioritises the poorest eligible clients rather than pursuing scale indiscriminately. Operations in Mirzapur date to September 1997, and by its own reporting the organisation reached financial break-even twice — first in March 2003 and again in March 2008 — the second time with roughly 303,000 active borrowers, an outstanding portfolio near Rs. 147 crore, and portfolio-at-risk contained at 1.8 percent, well inside its own 5 percent ceiling.

Mirzapur sits within the Varanasi administrative division of Uttar Pradesh, sharing borders with Varanasi to the north, Sonbhadra to the south, and Allahabad to the south-west. Census 2001 figures put the district's population at just over 2.07 million across 4,521 sq. km, with the overwhelming majority — close to 1.79 million people — classified as rural. Livelihoods in this rural hinterland are anchored in agriculture and share-cropping, livestock rearing, small trading, and low-capital transport and craft occupations such as cycle-rickshaw plying and khadi/charkha work — activities that map closely onto the loan-purpose categories financed by CASHPOR in the district.

II. MICROFINANCE AND THE SHG MOVEMENT IN INDIA: BACKGROUND

India's microfinance sector has broadened considerably in scope over the past two decades, moving beyond simple savings-and-credit services into micro-insurance, remittance handling and, more recently, pension products for low-income households. NABARD's annual compilation of data from commercial banks, Regional Rural Banks and cooperative banks — covering SHG savings balances, credit disbursed, outstanding dues and non-performing assets — remains the principal source for tracking the formal banking sector's engagement with the movement (NABARD, 2009). Two linkage architectures dominate this landscape: the SHG-Bank Linkage Model, under which banks lend to SHGs directly, and the MFI-Bank Linkage Model, under which banks fund intermediary microfinance institutions that in turn on-lend to SHGs and other small borrowers.

At the group level, an SHG is ordinarily a small, self-selected cluster of 10 to 20 members — usually women drawn from a similar economic stratum — who commit to regular savings and use the pooled fund to make small interest-bearing loans to one another. As individual SHGs mature, many federate into clusters or Village Organisations and, at a further remove, into apex federations. Federation brings real advantages in cost-sharing, inter-group borrowing and collective bargaining power with banks (Nair, 2005), but it also imports a fresh set of governance problems, since federated bodies inherit the informal, loosely-skilled management culture of their member groups rather than resolving it.

The catalytic policy moment for this model was NABARD's pilot SHG-Bank Linkage Programme, launched in February 1992, which for the first time treated informal savings-and-credit groups as creditworthy bank clients in their own right (Puhazhendhi & Badatya, 2002). Bank participation subsequently expanded on the strength of demonstrably low transaction costs and strong repayment performance relative to conventional individual lending (Burgess & Pande, 2004). Yet independent assessments of the linkage programme have also flagged recurring friction points: loan sanction routinely takes upward of four months, post-disbursement monitoring by banks is thin, better-positioned group leaders tend to capture a disproportionate share of loan amounts, and default rates hover around one in eight linked groups (Puhazhendhi & Badatya, 2002).

India's microfinance providers are conventionally sorted into three institutional categories: not-for-profit MFIs operating as societies, trusts, or Section 25 companies; mutual-benefit cooperative structures; and for-profit MFIs registered as non-banking financial companies under the Companies Act, 1956. At the point of retail delivery, the sector supports several coexisting models, from the classic SHG format and its regional variants, through Grameen-replicator approaches of the kind CASHPOR follows, to cooperative-Grameen hybrids, NBFC-led lending, federated-SHG structures and specialised urban cooperative banking — each shaped by its target

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clientele, pricing philosophy and institutional mandate.

Across these variants, SHGs tend to share a recognisable operating logic: members contribute small, regular amounts to a common fund; the group manages that pool democratically, deciding loan requests by consensus rather than by administrative fiat; lending relies on trust and peer knowledge rather than collateral or heavy paperwork; loan sizes are small and short-tenured; interest rates sit between what formal banks and informal moneylenders charge; and default is comparatively rare because peer monitoring substitutes for formal enforcement. Taken together, this bundle of features is what much of the literature credits with the SHG model's success at cutting transaction costs on both sides of the credit relationship and, more contentiously, at advancing the economic standing of poor women (Kabeer, 2005; Yunus, 1999).

III. OBJECTIVES OF THE STUDY

The study was designed around three specific objectives:

- To review the status of microfinance in selected areas of Mirzapur district.
- To examine the accessibility of rural women to institutional credit and the problems faced in the administration of SHGs.
- To analyse the impact of micro-credit on the socio-economic empowerment of rural women in Mirzapur district.

IV. RESEARCH METHODOLOGY

This is an exploratory, field-based study built mainly on primary data, with secondary sources used to situate the district-level findings in a national context. Fieldwork covered two development blocks of Mirzapur district — Mirzapur City and Marihan — encompassing 4 villages and 10 SHGs in total. Blocks, villages and respondents within them were selected by random sampling. The final sample comprised 100 individual SHG beneficiaries together with 10 officials and non-officials connected to SHG promotion and bank linkage in the area; fieldwork was carried out in March 2010.

4.1 Data Collection Tools

Quantitative information was gathered through structured interview schedules administered to beneficiaries, together with organisational profile forms completed for each SHG. These were complemented by qualitative material from Focused Group Discussions and Participatory Rural Appraisal (PRA) exercises conducted in the sample villages. Secondary data which chiefly figures on loan purpose, enterprise category and interest rates were drawn from CASHPOR's head-office records and existing area reports covering the district.

4.2 Data Analysis

Responses were tabulated and analysed largely through descriptive statistics- frequency counts and percentage distributions- chosen to surface patterns across the sample rather than to test formal hypotheses.

4.3 Scope and Limitations

The primary survey findings are specific to the sampled villages of Mirzapur district; the discussion of national policy and the wider SHG literature is included for context rather than as a claim of district-level equivalence. Two limitations bear noting: the analysis relies on descriptive rather than inferential statistical techniques, and the sample includes some recently formed SHGs still early in their bank-linkage cycle, whose experience may understate the eventual impact of sustained group membership. Findings should accordingly be read as indicative of the study area rather than as a district-wide or state-wide estimate.

V. RESULTS AND DISCUSSION

5.1 Status of Microfinance in the Study Area

Microfinance penetration in the surveyed villages remains well below its potential. A large proportion of rural women encountered during the survey were illiterate and had little working knowledge of what CASHPOR, or microfinance more broadly, actually offered. This gap is consistent with the wider observation that awareness-building, not just credit supply, is often the binding constraint on SHG uptake in low-literacy districts (Nair, 2005) and it suggests that expanding coverage in Mirzapur will depend as

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much on sustained group meetings and door-to-door field engagement as on the availability of loan capital itself.

5.2 Credit Accessibility and Household Impact

Where SHG linkage had taken hold, households reported a clear shift toward formal credit sources and away from informal moneylenders, and this shift was accompanied by women taking up income-generating activity that had not previously been financially viable for them. The resulting income gain was modest in absolute terms on the order of Rs. 2,000 to 4,000 additional per year but respondents consistently directed this margin toward child nutrition and family healthcare rather than discretionary spending, a pattern that echoes findings elsewhere in the literature on how women-controlled income tends to be allocated within the household (Kabeer, 2005).

5.3 Socio-Economic Profile of Beneficiaries

Age, education, marital status, family income and housing conditions were assessed as key variables shaping women's empowerment and development outcomes. The main profile findings are summarised in Table 1.

Table 1. Socio-economic profile of SHG beneficiaries

Indicator	Key Finding
Age distribution	42.59% of beneficiaries aged 26-35 years; 35.99% aged 36-45 years - a predominantly middle-aged respondent base.
Education (beneficiaries)	About 50% of women respondents were illiterate; SHG membership was reported to provide a route to basic literacy and awareness-building.
Marital status	Majority of respondents were married; a notable share of unmarried women was also recorded.
Control of family income	Over half of respondents reported that husbands controlled spending of family income; about 20% reported spending it themselves.
Landholding	31.88% of beneficiaries were landless; most others held small or marginal landholdings.
Husband's education	Roughly one-fourth of husbands overall were illiterate, rising to 46.88% among Mirzapur respondents.
Annual family income	Most families fell in the Rs. 15,000-30,000 per annum range, at or near the poverty line.
Household decision-making	60% of beneficiaries reported husbands as primary decision-makers; over one-third reported actively participating in decisions.

5.4 Group Functioning, Savings and Credit Behaviour

Survey responses on group functioning and credit performance are summarised below:

- A strong sense of group cohesion (homogeneity) was reported, though meeting attendance had room for improvement.
- 88% of members had borrowed from microfinance institutions, with a loan repayment rate of 95%.
- 90% of members reported saving regularly; savings per member averaged below Rs. 50 per month.
- 85% of eligible members had adopted small-family norms.
- Three-fourths of SHG members had received credit at least once, and 46% had taken loans more than once.
- 61% of beneficiaries had accessed bank credit, mainly for consumption needs, emergencies,

agriculture and other income-generating activities.
- SHG bank accounts were typically operated jointly, with transactions occurring roughly once a month.
- Only 31% of respondents reported receiving benefits that had a clearly measurable effect on their overall socio-economic status.

5.5 Broader Impact on Socio-Economic Empowerment

The effects of SHG participation were not confined to the loan transaction itself. Members reported becoming more aware of their entitlements under government development schemes, taking a more active role in decisions both inside the household and in dealings with markets, and finding greater scope for self-employment than they had before joining. This pattern of participation being promoted by a wide network of institutions- NABARD, SIDBI, SEWA, MYRADA, ADITHI, PRADAN, CDF, CASHPOR India and a large number of smaller local NGOs is itself consistent with the sector-wide picture of SHGs functioning as a multi-purpose development platform rather than a narrowly financial one (Community Development Journal, 2023).

VI. PROBLEMS AND CHALLENGES

The case for microfinance as a poverty-reduction tool is well established, but it is not unconditional. A recurring finding in the literature is that the income gain from a micro-loan scales with the borrower's starting position- the poorer the household, the smaller the practical uplift a given loan delivers (Morduch, 1999) and that many borrowers never progress from small, subsistence-oriented loans to the larger, enterprise-grade credit that would let a micro-business actually grow. Beyond a certain point, credit alone stops being the binding constraint; skills, market access and technology matter just as much, and livelihood promotion of that depth is a considerably harder undertaking than simply delivering financial services efficiently.

Interviews with officials and non-officials in the study area surfaced three recurring clusters of constraint:

- Bank linkage: weak coordination between banks and promoting agencies, uneven government backing, slow-moving loan-sanction procedures, an indifferent attitude among some branch staff, and low group-level saving rates.
- Capacity building: limited baseline education among members, a shortage of experienced trainers and resource persons, thin availability of usable training material, and insufficient community or financial backing for training activity.
- Enterprise promotion: gaps in entrepreneurship development, skill upgradation, technology access and market linkage, compounded by low self-confidence among women running or considering micro-enterprises.

None of these constraints operates in isolation. The evidence from Mirzapur suggests that SHG effectiveness is shaped jointly by what happens inside the group- its internal cohesion, savings discipline and leadership and by the quality of the external institutional environment it operates in, particularly the responsiveness of its banking partners.

VII. CONCLUSION AND SUGGESTIONS

The evidence from this district-level study supports the broader claim that SHG-based microfinance has narrowed, though far from closed, the gap in institutional credit access facing poor rural women in Mirzapur. Compared with conventional collateral-based lending, group-based credit delivery has clearly lowered transaction costs and improved recovery performance, consistent with what the national SHG-Bank Linkage literature reports (Burgess & Pande, 2004; Puhazhendhi & Badatya, 2002). At the same time, the study is a reminder that credit access on its own does not automatically translate into empowerment: women in the sample remain largely outside major household financial decisions, and the income gains recorded, while real, are modest relative to the scale of poverty in the district.

On the strength of these findings, the following measures are suggested for strengthening microfinance delivery and SHG functioning in Mirzapur:

- Scale up awareness-building and door-to-door outreach in villages where SHG penetration remains low, with particular attention to illiterate and first-time women borrowers.
- Simplify bank-linkage procedures to cut loan-processing time and put in place more consistent post-disbursement follow-up by lending banks.
- Invest in capacity-building- training, skill development and market-linkage support- backed by adequately trained and resourced field staff.
- Support the graduation of borrowers from small consumption loans to enterprise-scale credit, paired with entrepreneurship training and market access support.
- Encourage more equal participation by women in household financial decisions as a complement to credit access, given how much control over family income and major decisions still rests with husbands.
- Improve coordination between banks, NGOs and government livelihood schemes (such as the Swarnjayanti Gram Swarojgar Yojana) so that newly formed SHGs get adequate support through their early, most fragile stabilisation phase.

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