

# A Study on The Socio-economic Impact of Availing Microfinance Among Farmers of Punjab

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## Abstract

*Microfinance has ever since its introduction been an essential and significant tool of economic empowerment of the people out of the net of formal credit system. At present, realizing the importance of micro finance, various organizations, both formal and informal have been involved actively in supporting with finances through their sources. The current research paper emphasizes upon the socio-economic benefit of availing microfinance, particularly to farmers, in the state of Punjab. Variables to measure economic impact include increase in income, savings and investment while variables like education, health and societal relations have been used to measure social impact. ANOVA has been applied to study whether there is any significant difference in the benefits of availing microfinance derived by the people of varied income status and of varying duration of availing microfinance. The study concludes that though the benefits derived are same among people of differing income status, there is some deviation in the benefits with respect to duration of microfinance. For beneficiaries who are availing microfinance for more than 5 years, the socio-economic impact is greater and positive, while it is comparatively lesser for people availing microfinance for lesser duration. The research paper aims to highlight the significance of microfinance on farmers in Punjab and acts as a base for further research in the area.*

**Keywords:** *Microfinance, farmers, socio-economic impact, cooperative societies.*

## Introduction

‘Microfinance’ is the facility provided to certain sections of the society in the form of small sized credit with the purpose of creating alternative economic activities to improving their livelihood. Microfinance is assumed to reduce poverty levels among people and is supposed to be inversely proportional to the poverty. It means, that higher the microfinance lesser will be the poverty in a country. The concept of microfinance has penetrated through an array of channels to cater to needs of those social or economic strata of people who do not have easy access to finance.

In early 1970s Ms. Ela Bhatt, introduced the

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microfinance scheme in the Self Employed Womens’ Association established by her in Ahmedabad, Gujarat. Mohammed Yunus, a Nobel Prize winner, introduced this scheme through Grameen Bank in Bangladesh in October 1983. Success of Bangladesh’s Grameen bank became an example. Also, the World Bank advocated the idea of microfinance as an efficient tool for empowering the poor. Thereafter, microfinance has grown at a significant pace around the globe.

In India, NABARD (National Board of Agriculture and Rural Development, established in 1982 ) has been supporting microfinance movements ever since its inception. NABARD replaced organizations such as the Agricultural Credit Department (ACD) and Rural Planning and Credit Cell (RPCC) of Reserve Bank of India, and Agricultural Refinance and Development Corporation (ARDC). It plays

a pivotal role in supervision of disbursement of microfinance through various schemes and institutions all across the country. It has its special focus on rural sector, including small scale and cottage industries. It holds the responsibility to keep a check on institutions providing microfinance and refines them as and when required. It also provides timely training to institutions for rural upliftment. NABARD has an active involvement in Resource Management Programmes including watershed development, development of tribal sector and introducing innovation in farming sector while maintaining separate funds for these areas. Non-Governmental Organisations (NGOs) are also participating in microfinance schemes for provision of finance to the end users. There are several forms and channels through which the poor are being identified by the Government to create opportunities for their livelihood needs from the Government sources. It has been observed that in the state of Punjab, there is very few Self-Help Groups (SHGs). Hence, cooperative societies are chosen as these societies such as Primary Agricultural Cooperative Societies (PACS) formed by farmers as members on a larger scale, are exclusively for serving needs of agriculture. Therefore, the paper aims to study the presence of cooperative societies in Punjab across various districts and to examine the impact of microfinance provided by PACS through microfinance schemes, on the social and economic condition of its members, precisely, small and marginal farmers. Specific to the state of Punjab, the details of PACS (total and type wise) during the year 2016-17 is as in Table 1(a) (in Appendix): PACS in Punjab.

PACS in Punjab are spread across the entire state with their vast presence in each of the district. The number of PACS in each district varies depending upon the size of the district. Each PACS covers 3-7 villages and has an average membership of 300 farmers. Farmers who are members of PACS

are mostly small and marginal farmers having a landholding of less than 2 hectares. The table 1(b) shows the number of numbers, and credit disbursed through PACS over a period of three years:

Sample has been chosen as per multi stage random sampling method from three major divisions of Punjab. Sample districts have been chosen proportionately, i.e 5 Primary Agricultural Cooperative Societies have been chosen from each of the sample district. From each PACS, a sample of 20 farmers has been chosen on convenient sampling basis. Hence, the sample size is 1100 respondents.

## Literature Review

The study by Padmaja and Ali (2019) identify factors determining the incidence and the extent of indebtedness of agricultural households in rural India. Descriptive analysis has been used to show that indebted and non-indebted agricultural households differ significantly in socio-economic and farm characteristics. The difference in the degree of indebtedness across sources of loan, landholding sizes and locations has also been highlighted in the study. Agricultural households availing loans from institutional sources with large landholding sizes and belonging to southern states in India are comparatively more indebted.

Tamini et al. (2019) analyses the crop production intensification credit (CIPA) and its impact on small farmers in Burkina Faso, Africa. The research is based on a randomized experiment coupled with propensity score matching. The strategy is used to identify the observable characteristics of producers and their farms in non-CIPA areas, who have the propensity to take a credit similar to the CIPA beneficiary producers. A Difference-in-Difference approach is used and the changes in the results between the baseline (2015) and final (2017) surveys with results in a total of 955 observations in the northern of Burkina Faso and 1,311 in the

southern part are analysed. The results show that CIPA has a positive effect on area planted, yield, production and sales.

Iqbal et al. (2018) analyse the corporate governance and monetary performance relationship for MFIs in Asia. A panel dataset involving 173 MFIs in eighteen Asian countries for the amount 2007-2011 have been constructed along with a company governance index on the basis of seven measures as per the board size and composition, CEO characteristics, and ownership type. Thereafter, a two-way relationship between this index and 5 totally different monetary performance indicators are estimated. They confirm the endogenous nature of the corporate governance and financial performance. It is then concluded that gain and property of MFIs improve with the sensible governance practices and conversely additional profitable MFIs that are sustainable have more efficient governance system.

Emmanuel et al. (2018) use a sample data of 224 microcredit borrowers from Ada West and Ada East districts of Africa to analyze factors determining repayment rate among smallholder farmer borrowers. Authors apply logistic regression model and determinants of microcredit repayment are analyzed using farmer and credit specific characteristics of the respondents. From the logistic regression using age, gender, income, and number of dependents increase the likelihood of repayment. However, membership of farmer based organization, experience, interest rate, and duration of loan repayment negatively influence loan repayment.

Bharti (2018) explores the policy interventions in the areas of agriculture finance through her research for understanding the relation of earlier policy initiatives with the current microfinance industry. She concludes that if those interventions had been implemented in time, it would have taken India in one of the tops in the list of financial inclusion.

Lal (2018) establishes the impact of financial inclusion on rural development of northern Indian states through cooperatives across the north Indian states of Jammu and Kashmir, Himachal Pradesh and Punjab. Data have been analysed using EFA, CFA, ANOVA, T-test and Structured Equation Modelling to find out that there is a significant impact of financial inclusion over rural development in the research area.

Das (2018) evaluates the impact of access to credit on income and multi-dimensional poverty using econometric framework. Quasi experiment design is used in the research area i.e the state of Assam. Empirical framework is supported by tools like probit, tobit and heckit procedure. The study finds out that among the beneficiaries of credit, those who take credit from informal sources are more hit by the poverty while those taking credit from formal sources of credit and institutions are at a better position with respect to economic status.

Inoue et al.(2018) establish that financial inclusion and deepening financial service have statistically significant negative relationships with the poverty ratio for the public sector banks but not for the private sector banks. Also, the coefficients of the interaction term between financial inclusion and deepening financial services are estimated to be negative and statistically significant in most cases of the public sector banks. The implication of the research taking into consideration the positive impacts of financial inclusion and deepening on poverty reduction, is that the promotion of breadth and depth of public sector banks in India could have a synergistic effect on reducing the levels of poverty and improving the conditions of living for the poor.

Kochar (2018) analyses consequences of access to financial establishments/banks that provide services to villages based on the dimensions/ size of distribution of villages within the service area assigned to them utilizing longitudinal variation in

conjunction with geographic eligibility criterion.

Bharti (2018) views accessibility to finance/credit as a major factor in the level of profitability in agriculture. The research is intended to explore various policy interventions with respect to financing of the agriculture sector in Islamic country.

Dusuki (2008) has suggested in his research that microfinance requires approaches that are innovative and different role of conventional financial intermediary. He has suggested that laying emphasis on human capacity through the tool of social intermediation is important. A group based lending programmes are found out to be effective methods of providing credit to the poor as it involves lesser transaction costs and other financial risks.

Nukpezah and Blankson (2017) have surveyed 100 rural farmer-entrepreneurs in order to examine microfinance intervention in rural poverty reduction in the state of Ghana. The study emphasizes that both credit provision and social intermediation improve access to credit, improve business performance, and contribute to a higher standard of living for farmer-entrepreneurs and their families. The study also reveals that the microfinance scheme has been successful due to a strong social network and group relationships among the farmers. Also, one of the implication of the research is that there is a need to emphasize upon social and human development components in microfinance policies as well as poverty reduction programs in developing countries.

Sultana et al. (2017) analyse the role of microfinance in empowering women and a comparison of empowerment between members of SHGs and non-members. Microfinance aspect is studied on the basis of variables like the size of loan received, recovery of loan, and period of loan and empowerment are analysed with respect to economic, social and knowledge empowerment. Logistic regression model has been used for the

analysis. The study concludes that microfinance brings knowledge and the social empowerment compared to economic empowerment. Impact of micro finance is appreciable in imbuing confidence, courage, skill development and empowerment.

Nasir & Farooqi (2016) analyse the role played by Microfinance in women empowerment in two dimensions namely social and economic. The study includes various schemes under which the micro finance tool is applied and the progress of this program is studied using data provided by the government and other institutions. Primary data analysis are carried out to highlight the impact of Microfinance in the empowerment of women.

Swain et al. (2014) investigate the role of Self Help Groups in empowerment of the poor, specifically women, using a household survey of five states in India over a sample of 679 SHG households. Since the empowerment of women is an unobservable latent variable, Structural Equation Modelling has been used to estimate the impact of latent factors where ordinal variables are treated appropriately to measure women empowerment. The study brings to light the state of regional imbalance of penetration of SHG-Bank linkage programme (SBLP) and microfinance in the southern region having larger penetrations for both. However, the study concludes that SBLP programme has differential impact on women's empowerment of its SHG members depending on whether they belong to the more actively engaged states of south or others.

Saha (2017) talks about the role of microfinance based Self Help Groups in expanding health coverage in India as a part of its social impact on the beneficiaries. The research finds that SHGs provide an apparatus to reach the poor and their families with essential health programmes and that there is need for public health planners to invest in investigating further the role of existing SHG programmes to expand health coverage in India.

Rao (2016) studies the performance of PACS in India with special reference to Andhra Pradesh. Through literature and data collected from the government sources like NAFSCOB, the author concludes that the states in southern region are well with respect to microfinance disbursement as well as repayments of credit. Andhra Pradesh has shown an increasing membership and disbursement of loans over years in order to provide the requisite financial support to the poor.

### **Objective of the Study :**

This research aims to study the socio-economic impact of availing microfinance schemes among farmers in Punjab across income groups and microfinance availed for varying durations.

### **Research Methodology**

The study has been undertaken on the basis of primary investigation and collection of data from respondents through a structured questionnaire consisting of questions based on demographics and a set of 40 questions based on a 5 point likert scale intended to measure the socio-economic impact of microfinance schemes on farmers. Multistage purposive sampling is used to choose sample size of 1100 across 11 districts of Punjab for the study. However, 19 being respondent error, effective sample size turns out to be 1081. The study has been conducted in the districts with information being gathered from sources like the State Central Cooperative Bank, Cooperative Banks in the Districts, and Primary Agricultural Credit Societies in the district. The detail of Cooperative Societies of the districts was gathered from the office of Deputy/ Assistant Registrar of Cooperative Societies. The economic impact is measured through variables like income, savings and wealth creation while the social impact is studied through improvement in health, education and societal relations. Data have been analysed using IBM SPSS 21 software and

ANOVA has been used to study whether the socio-economic impact varies with respect to income status of respondents and the duration since when they have been availing microfinance

#### **Analysis: Anova : by Income Status**

The Income groups have been classified in three categories, i.e Upto Rs.1,20,000; Rs. 1,20,000 to Rs. 1,80,000 and Above Rs.1,80,000 per annum.

Hypothesis 1: There is no significant difference in means of respondents with varying income status and increase in income after availing microfinance.

#### **Table 2: Aggincome in Appendix**

In the ANOVA table 2, it can be seen that the significance value is greater than .05, which means that the null hypothesis is accepted . The implication of this is that there is no significant difference in the means perceptions of the three groups of respondents, classified as per the income status in their increase in income. It indicates that respondents experience increase in income irrespective of varying income status.

Hypothesis 2: There is no significant difference in means of perceptions of respondents with varying income status and increase in their savings after getting micro finance .

#### **Table 3: Aggsavings in Appendix**

It can be observed from the ANOVA table 3 that the significance value is greater than .05, which indicates the acceptance of null hypothesis. This indicates that there is no significant difference in the means perceptions of the three income groups of respondents classified per the income status, in their perceptions of increase in savings.

Hypothesis 3: There is no significant difference in means of respondents with varying income status and increase in Wealth due to getting microfinance

**Table 4 : AggWC in Appendix****Result: Null Hypothesis Accepted.**

The significance value as given in table 4 is more than 0.05 which signifies that there is no significant difference in means of respondents with varying income with respect to the perceptual increase in wealth creation. Hence, the null hypothesis has been accepted. Wealth is measured in terms of increase in agricultural equipment, household assets etc.

Hypothesis 4: There is no significant difference in mean perceptions of respondents of varying income status with respect to improvement in Health after availing microfinance.

**Table 5: Agg\_Health in Appendix****Result: Null Hypothesis rejected .**

The results show that perceptions of improvement in health after availing micro finance schemes differ among income groups . Respondents reveal their preference for hygiene and health services alike. The null hypothesis has therefore been rejected.

Hypothesis 5: There is no significant difference in means of respondents with varying income status with respect to improvement in Education.

**Table 6: Agg\_Edu in Appendix****Result: Null Hypothesis Accepted.**

The null hypothesis has been accepted as the significance value is greater than .05. It implies that irrespective of income status, there is an improvement in education of respondents after availing microfinance schemes.

Hypothesis 6: There is no significant difference in means of perceptions of respondents of varying income status with respect improvement in Societal Relations.

**Table 7: Agg\_Soc in Appendix****Result: Null Hypothesis Rejected.**

The significance value is less than 0.05 and hence the null hypothesis is rejected. This means that there is some difference in perceptual improvement in societal relations with respect to various income status.

Table 8: Anova by varying Duration of Microfinance and differences in impacts among groups In Appendix

Hypothesis 7: There is no significant difference in means of respondents with varying duration of availing microfinance with respect to improvement in Income.

**Null Hypothesis is accepted** as results reveal that mean perceptions of respondents regarding duration of microfinance and improvement in income differ across different income groups . The significance value, .743, is greater than .05, and hence the null hypothesis is accepted

Hypothesis 8: There is no significant difference in mean of perceptions of respondents with varying duration of availing microfinance and increase in Savings.

**Null Hypothesis is rejected**

The significance value is less than .05, i.e. .036; and hence the null hypothesis is rejected . This implies that there is significant difference between increase in savings among respondents availing micro finance schemes for different durations. Respondents have been classified in three categories based upon the duration of availing micro finance i.e. upto 3 years; 3 – 5 years and more than 5 years. It has been observed that for respondents who are availing micro finance since more than 5 years the perceptual increase in savings is higher than the other groups.

Hypothesis 9: There is no significant difference

in means of respondents with varying duration of availing microfinance with respect improvement in Wealth Creation.

**Null Hypothesis is rejected .**

The significance value is less than 0.05, i.e 0.041, which implies that the null hypothesis is rejected. Hence, there is significant difference in the mean perceptions of respondents on improvement in Wealth Creation with respect to duration of availing microfinance. It has been observed that for respondents who are availing micro finance since more than 5 years the improvement in wealth creation is higher than the other groups.

Hypothesis 10: There is no significant difference in means of respondents with varying duration of availing microfinance with respect improvement in Health.

**Null Hypothesis is rejected.**

Since the significance value is less than .05,i.e. .031; hence, the null hypothesis is rejected. The implication being that there is significant difference in means of respondents with varying duration of availing microfinance with respect improvement in health.

Hypothesis 11: There is no significant difference in mean perceptions of respondents on varying duration of availing microfinance with respect improvement in Societal Relations.

**Null Hypothesis is accepted .**

The significance value is more than .05, i.e. .372; hence the null hypothesis is accepted. The implication being that there is significant difference in means of respondents with varying duration of availing microfinance with respect improvement in Societal Relations. This means that respondents availing microfinance since upto three or even more than 5 years experience a differential perceptual

improvement in societal relations.

Hypothesis 12: There is no significant difference in means of respondents with varying duration of availing microfinance with respect improvement in Education.

**Null Hypothesis is accepted.**

Since the significance value is more than .05, i.e. .079; the null hypothesis is accepted implication being that there is significant difference in mean perceptions of respondents on varying duration of availing microfinance with respect improvement in Education.

**Conclusion**

The study aimed at understanding the socio-economic impact of microfinance schemes on small and marginal farmers in Punjab. Its objectives included measuring increase in economic indicators like income, savings and wealth creation. The results of the study indicated a positive impact of microfinance schemes on the socio-economic well-being of farmers in Punjab state. One way ANOVA is conducted to see if there is a difference in perceptual improvement in socio-economic factors for respondents from different income status. It has been observed that all the respondents, irrespective of income status, have benefitted from microfinance schemes with respect to economic status. However, for respondents with lower income status, the improvement in health is greater than the other groups. Also, for respondents who are availing microfinance schemes for a greater duration have a higher improvement in socio-economic well-being.. Hence, the study concludes that as a whole, microfinance schemes impact the socio-economic well-being of farmers in Punjab in a significant and positive manner.

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## Appendix

### Table1(a)

Details	Numbers
Total No. of PACS	3543
Viable PACS	3204
Potentially Viable PACS	339

Source: National Federation of State Cooperative Banks

### Table 1(b): Data on PACS in Punjab (NAFSCOB)

	2017-18	2016-17	2015-16
Total membership* (in '000)	2518.83	2518.83	719.46
Disbursement of credit** (in lacs)	1106836	1106836	165569.13

\*members constitute small and marginal farmers

\*\*short-term credit

(Source: National Federation of State Cooperative Banks)

### Table 2: Aggincome

	Sum of Squares	df	Mean Square	f	Sig.
Between Groups	6592.592	2	3296.296	76.674	.067
Within Groups	46344.600	1078	42.991		
Total	52937.191	1080			

Result: Null Hypothesis accepted

### Table 3: Aggsavings

	Sum of Squares	df	Mean Square	f	Sig.
Between Groups	3024.160	2	1512.080	39.232	.210
Within Groups	41547.883	1078	38.542		
Total	44572.043	1080			

Result: Null Hypothesis accepted

### Table 4: AggWC

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	788.019	2	394.009	31.045	.071
Within Groups	13681.428	1078	12.691		
Total	14469.447	1080			

Result: Null Hypothesis accepted

### Table 5: Agg\_Health

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	12712.216	2	6356.108	164.662	.000
Within Groups	41611.827	1078	38.601		
Total	54324.043	1080			

Result: Null Hypothesis accepted

Table 6: Agg\_Edu

	Sum of Squares	df	Mean Square	f	Sig.
Between Groups	4923.595	2	2461.798	153.146	.080
Within Groups	17328.660	1078	16.075		
Total	22252.255	1080			

Result: Null Hypothesis accepted

Table 7: Agg\_Soc

	Sum of Squares	df	Mean Square	f	Sig.
Between Groups	15839.187	2	7919.594	210.956	.000
Within Groups	40469.706	1078	37.541		
Total	56308.894	1080			

Result: Null Hypothesis Rejected.

Anova by Duration of Microfinance

Table 8

		Sum of Squares	df	Mean Square	f	Sig.
H07: Aggincome	Between Groups	16.725	2	8.363	.170	.743
	Within Groups	52920.466	1078	49.091		
	Total	52937.191	1080			
H08: Aggsavings	Between Groups	1.969	2	.984	.024	.036
	Within Groups	44570.074	1078	41.345		
	Total	44572.043	1080			
H09 : AggWC	Between Groups	1539.967	2	769.983	1647.465	.041
	Within Groups	503.830	1078	.467		
	Total	2043.796	1080			
H10: AggHealth	Between Groups	3173.857	2	1586.928	123.231	.031
	Within Groups	13882.184	1078	12.878		
	Total	17056.041	1080			
H11: AggSocRel	Between Groups	374.950	2	187.475	97.926	.372
	Within Groups	2063.786	1078	1.914		
	Total	2438.736	1080			
H12: AggEdu	Between Groups	386.969	2	193.485	92.241	.079
	Within Groups	2261.214	1078	2.098		
	Total	2648.183	1080			