

IMPACT OF MICROFINANCE ON RURAL HOUSEHOLD INCOME, DEBT, AND FOOD SECURITY IN TIRUPATTUR DISTRICT

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ABSTRACT

Microfinance has become a major instrument for financial inclusion and rural development in India. It is widely promoted through Self-Help Groups (SHGs), Microfinance Institutions (MFIs), and cooperative credit systems to support low-income households. This study examines the impact of microfinance on rural household income, debt levels, and food security in Tirupattur District, Tamil Nadu. The study is based on both primary and secondary data. Primary data were collected from 120 rural households who are microfinance beneficiaries, selected from six villages in Tirupattur District using a simple random sampling technique. Secondary data were gathered from NABARD reports, RBI publications, government documents, and existing research studies. The analysis was carried out using percentage analysis, averages, and correlation methods to understand relationships between microfinance access and household welfare indicators. Findings show that microfinance has contributed to improving household income by enabling livelihood diversification through petty trade, dairy activities, tailoring, and small enterprises. At the same time, the study reveals that a significant proportion of households experience rising debt burden due to repeated borrowing, multiple loans, and repayment pressure. Food security outcomes show overall improvement for most households, as increased income and credit access helped improve food consumption patterns. However, households with high debt stress continued to face mild to moderate food insecurity, especially during lean seasons. The study concludes that microfinance plays a positive role in enhancing rural household resilience in Tirupattur District, but its long-term benefits depend on responsible lending practices, financial literacy, and productive use of credit. The study recommends strengthening SHG-based financial

education, improving monitoring to prevent over-indebtedness, and promoting flexible repayment schedules aligned with rural income cycles.

KEYWORDS: Microfinance, Rural households, Income, Debt burden, Food security, SHGs.

INTRODUCTION

Microfinance refers to the provision of small-scale financial services such as credit, savings, and insurance to low-income individuals who lack access to formal banking. In India, microfinance has played a key role in supporting rural households by enabling them to start micro-enterprises, manage emergencies, and smooth consumption during seasonal income fluctuations. Rural households in Tirupattur District largely depend on agriculture, wage labour, and informal employment. These livelihoods are vulnerable to climate risks, price instability, and irregular earnings. Therefore, access to microfinance may influence household income, debt management, and food security. This study evaluates these impacts in a district-specific context.

Statement of the Problem

Although microfinance has expanded significantly, rural households still face challenges such as low income, persistent indebtedness, and food insecurity. Many households borrow not only for productive purposes but also for consumption, medical needs, or social expenses. Repeated borrowing and multiple loans can increase repayment burden and debt stress. The problem addressed in this study is whether microfinance improves household income and food security sustainably in Tirupattur District, or whether it contributes to increased debt vulnerability.

Significance of the Study

This study is significant because it contributes to understanding the real outcomes of microfinance in a rural district setting. It helps policymakers, SHG leaders, MFIs, and rural development agencies assess whether microfinance is achieving its intended objectives. The study is also important for identifying challenges such as over-indebtedness, loan diversion, and repayment stress, which may weaken household resilience and food security.

Scope of the Study

The scope of the present study covers microfinance beneficiary households living in the rural areas of Tirupattur District. It focuses on analysing the changes in household income by

comparing the income levels before and after accessing microfinance services. The study also assesses the extent of household debt, repayment burden, and the issue of multiple borrowing among the beneficiaries. Further, it evaluates the food security status of households after participating in microfinance programmes. However, the study is limited to selected villages and does not include all blocks of Tirupattur District.

Review of Literature

Microfinance has been widely studied as a poverty reduction and development strategy. Khandker (2005) found that microfinance contributes to poverty reduction and income improvement among rural households.

Banerjee et al. (2015) reported that microfinance increases business activity, though impacts on poverty and consumption may vary.

Bateman (2010) argued that microfinance may increase debt cycles and weaken long-term development.

Armendáriz and Morduch (2010) highlighted the importance of institutional design and borrower capacity for microfinance success.

Roodman (2012) emphasized that microfinance has mixed results and should not be treated as a universal solution.

Swain and Floro (2012) found that microfinance can reduce vulnerability, but over-indebtedness remains a concern. Indian studies on SHGs suggest improved savings and women empowerment, but uneven economic benefits across households.

Research Gap

Most studies on microfinance focus on general poverty reduction and women empowerment. Limited district-level studies are available that jointly examine income, debt, and food security together. Specifically, empirical research focusing on Tirupattur District is limited. This study fills this gap by providing local evidence and linking microfinance outcomes to household resilience indicators.

Objectives of the Study

1. To examine the impact of microfinance on rural household income in Tirupattur District.
2. To assess the influence of microfinance on household debt levels and repayment burden.
3. To analyse the effect of microfinance on household food security status.
4. To suggest policy measures for improving microfinance outcomes.

RESEARCH METHODOLOGY

Profile of the Study Area

Tirupattur District is located in northern Tamil Nadu. The district has a predominantly rural population, with livelihoods dependent on agriculture, livestock activities, and informal wage employment. Limited industrial employment and seasonal income patterns make households vulnerable to shocks. Microfinance services are delivered mainly through SHGs linked to banks and MFIs.

Sources of Data

Primary Data:

Primary data were collected from rural households through a structured interview schedule.

Secondary Data:

Secondary sources include NABARD reports, RBI publications, Tamil Nadu government records, journals, books, and microfinance-related research articles.

Sampling Design and Sample Size

The study adopted a simple random sampling method. A total of 120 microfinance beneficiary households were selected from six villages in Tirupattur District. The households included SHG members and MFI borrowers.

Tools for Data Collection

The study uses a structured interview schedule (questionnaire) as the main tool for collecting primary data from the selected respondents. In addition, household-level discussions are conducted to gain deeper insights into their experiences with microfinance. Observation and informal interactions are also used to understand the real-life living conditions, repayment practices, and financial behaviour of the households. Along with primary data, relevant secondary documents such as reports, records, and published materials are reviewed to support the study.

Tools used for Analysis

For analysing the collected data, the study applies percentage analysis, mean and average analysis, and tabulation to summarise and present the findings clearly. Further, correlation analysis is used to examine the relationship between debt and food security, while

comparative analysis is carried out to measure the changes in income, debt, and food security before and after access to microfinance.

Data Analysis and Interpretation

Table 1: Monthly Household Income Before and After Microfinance. (₹)

Income Category	Before Loan (%)	After Loan (%)
Below 8,000	42	18
8,001 – 12,000	38	34
12,001 – 18,000	15	32
Above 18,000	5	16
Total	100	100

The above data in the table gives the particulars of improvement before and after availing microfinance. Before microfinance, 42% of households earned below ₹8,000 per month. After microfinance, this reduced to 18%. Households earning above ₹18,000 increased from 5% to 16%. This indicates that microfinance improved income levels for many households through livelihood activities.

Table 2: Household Debt Levels among Respondents.

Debt Category (₹)	Households (%)
Below 30,000	22
30,001 – 60,000	36
60,001 – 1,00,000	28
Above 1,00,000	14
Total	100

The above table reveals that about 42% of households have debt above ₹60,000. This suggests that repeated borrowing and repayment pressure contribute to a high debt burden among a significant section of microfinance users.

Table 3: Food Security Status of Respondents.

Food Security Status	Households (%)
Food secure (3 meals daily)	62
Mild food insecurity	24
Moderate food insecurity	11
Severe food insecurity	3
Total	100

The above shows that a majority (62%) of households reported being food secure after microfinance participation. However, 14% experienced moderate to severe food insecurity, indicating that microfinance benefits are not uniform across households.

Major Findings

1. Microfinance improved household income levels through small business and self-employment activities.
2. Many households used microfinance for consumption needs and emergency expenses.
3. Debt burden increased for a significant number of households due to repeated borrowing and multiple loans.
4. Food security improved for most households, but debt-stressed households remained vulnerable.
5. There is a negative relationship between high debt burden and food security stability.

Suggestions

1. Financial literacy programmes should be mandatory for microfinance borrowers.
2. MFIs and SHGs should promote productive loan use through skill development training.
3. Proper monitoring systems should be strengthened to avoid multiple borrowing.
4. Repayment schedules should be designed based on seasonal rural income patterns.
5. SHGs should encourage savings and emergency funds to reduce dependence on repeated loans.

CONCLUSION

The study concludes that microfinance has contributed positively to rural household income improvement and better food security in Tirupattur District. However, the study also highlights the challenge of increasing debt burden among certain households due to multiple borrowing and repayment pressure. Microfinance is effective as a rural development tool when loans are used productively and supported with financial education and responsible lending practices. For sustainable household resilience, microfinance programmes must focus not only on credit access but also on income generation, debt management, and food security protection.

Limitations of the Study

1. The study is limited to 120 households from selected villages and may not represent the entire district.
2. The study relies on self-reported income and expenditure data, which may involve reporting bias.
3. Advanced econometric analysis was not applied due to limited time and data constraints.

Future Scope

Future studies may expand the sample size by covering all blocks in Tirupattur District to ensure wider representation and stronger generalisation of findings. Researchers may also apply advanced statistical techniques such as regression models to estimate the causal impact of microfinance on household income, debt, and food security. In addition, comparative studies can be undertaken to examine the differences in outcomes between SHG–bank linkage programmes and Microfinance Institution (MFI) models. Further, food security can be measured more accurately by using standardized tools such as the Household Dietary Diversity Score (HDDS) or the Food Insecurity Experience Scale (FIES).

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