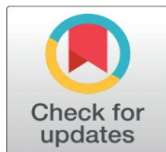


# EVALUATING THE SOCIAL IMPACT OF INTEREST-FREE MICROFINANCE INSTITUTIONS IN KERALA: AN ANALYSIS OF VARIANCE

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## ABSTRACT

The study has evaluated the Social Impact of Interest-free microfinance institutions (IFMFIs) in Kerala in terms of Impact on Self-confidence, Impact on Skill Development and Impact on Social Awareness and Responsibility to examine their performance in keeping their social commitments towards their beneficiaries. Using a sample size of 454 respondents from 32 sample institutions, the study found that the IFMFIs in Kerala have a positive social impact on its beneficiaries. The study has also made an attempt to examine whether there is any significant difference between the Society Model, Trust Model and Nidhi Model of Interest-free Microfinance in Financial Performance and found that the Society Model of interest-free microfinance institutions are performing better in all social impact parameters compared to other two models.

**Keywords:** Self-confidence, Skill Development, Social Awareness and Responsibility, Analysis of Variance, Interest-free Microfinance, Social Impact

## 1. INTRODUCTION

“Interest-free finance refers to the provision of financial services in accordance with Shariah law, principles, and rules. It does not permit receipt and payment of interest, excessive uncertainty, gambling, or financing activities that it considers harmful to society. Instead, the parties must share the risks and rewards of a business transaction and the transaction should have a real economic purpose without undue speculation, and not involve any exploitation of either party” [International Monetary Fund \(2017\)](#). Interest-free microfinance (IFMFI) has been

proposed by many scholars as an alternative way for microfinancing to attend the needs of the chronic poor, destitute, less-fortunate, and unbanked and underbanked marginalised communities [Ubaidullah \(2008\)](#), [Rahim and Rahman \(2015\)](#), [Muhammed \(2016\)](#), [Ameer \(2017\)](#).

The main objectives behind the introduction of Interest-free Microfinance can be summed up as Poverty Alleviation, Income Growth, Functional Distribution of Income, Equal Opportunity, Control of Ownership, and Prevention of Malpractice [Obaidullah \(2008\)](#). There are countries including USA and UK introduced Islamic banking services in the early 90s and 2000s and Interest-free microfinance institutions were operating since the early 70s in many Asian and Middle east countries. [Habib Ahmed \(2002\)](#) had done a comparative study and found that interest-free microfinance is effective in serving the core poor and fulfilling the mission of poverty alleviation compared to counterparts in an interest-based microfinance system. The [Asian Development Bank report \(2006\)](#) mentioned the distinct features of interest-free microfinance and its competence to provide the provision of small financial services to reach underserved people among remote rural dwellers and farmers' communities. There are more than 350 interest-free microfinance institutions (IFMFIs) and around 4000 interest-free SHGs are operating in Kerala.

## 2. LITERATURE REVIEW

There are numerous studies which revealed the positive effect of interest-free microfinance institutions on poverty mitigation and improvement in average monthly incomes [Hadisumarto and Ismail \(2010\)](#) and positive influence on education and microenterprises development [Rokhman \(2013\)](#). Better sales revenue after joining microfinance, adoption of innovative business strategy, the introduction of new products and innovative marketing techniques [Riwajanti \(2014\)](#) and more employment generation [Mohamed and Ahmed \(2015\)](#).

According to [Zekri \(2013\)](#), interest-free microfinance programs have become a critical factor to fight against poverty. Their innovative approaches in lending methodology and collection strategies, the usage of allied-financial facilities, vibrant incentivisation policies and charity to declare war against poverty, have attracted the attention of numerous governments, policymakers, and researchers. The influence of interest-free microfinance on the Sudanese experience has shown a positive impression on income-generating activities (IGA). Furthermore, the education loan offered by microfinance helps thousands of students to finance their graduate programs [Elzahi \(2015\)](#).

[Wulandari and Kassim \(2016\)](#), using the data of 382 BMTs in Indonesia, the researcher surveyed the role of Baitul Mal wat Tamwil (BMT) in contributing towards the mission of financial inclusion in Indonesia. The study found that BMT provides initial capital for start-ups, infrastructure facilities, and business incubation supports financially backward people. They found that BMT became a solution to many issues experienced in interest-based financial services such as requirements of collateral security, the tendency to make defaults and domestic violence etc, BMT has been found to be created a social fund for assisting the poor who do not have collateral and introduced group lending. In addition, BMT has utilized charity funds such as zakat, sadaqah and infaq to cope up with non-performing assets issues. And they also found to be conducted many capacities-building programs for customers and finally achieved the financial inclusion mission to a certain extent.

Interest-free microfinance is also seen to be provided social services such as skill training, awareness programs on social evils and the importance of social life, self-confidence improvement camps and managerial skill imparting workshops etc. [Khandker \(2005\)](#), [Mehjabeen \(2008\)](#). According to [Khaleequzzaman \(2007\)](#), Interest-free microfinance institutions tried to establish their social capital by exhibiting trust and harmony between financial institutions and beneficiaries. It promotes the concept of risk sharing among beneficiaries which would create a sense of cooperation and collaboration in the microfinance system.

[Mahmood \(2011\)](#) pointed out that women have enhanced their capacity after the introduction of interest-free microfinance, especially in their decision-making capacity. By delivering more financial freedom through various interest-free microfinance services, women from rural areas develop their bargaining capacity, stand up against violence on women and also enable them to have decision-making power in the family [Modi et al. \(2014\)](#). [Yogendrarajah and Semasinghe \(2015\)](#) in his work carefully observed the key role of interest-free microfinance in empowering women staying in rural areas. The study discloses that the relationship between micro-credit and women's empowerment turned out to be a positive one.

### **3. OBJECTIVES OF THE STUDY**

The present study is conducted with the following objectives:

- 1) To Understand how Interest-free Microfinance Institutions impact their beneficiaries on self-confidence, skill development and social awareness and responsibility.
- 2) To examine whether there is any significant difference between the Society Model, Trust Model and Nidhi Model of Interest-free Microfinance in Social Impact.

### **4. METHODOLOGY**

The study has used three variables the impact of self-confidence, the impact on skill development and the impact on social awareness and responsibility to measure the social impact of interest-free microfinance institutions in Kerala. Using a stratified random sampling technique, the study collected 454 data from 32 sample institutions which have been operational for at least five years in Kerala. The data collected from the institutions were processed and analysed using IBM SPSS-Version 23. The descriptive statistical analysis which includes mean and standard deviation was employed to describe the social impact of IFMFIs. ANOVA test has been used to test whether there is any significant difference between the Society Model, Trust Model and Nidhi Model of Interest-free Microfinance in social impact aspects.

### **5. DATA ANALYSIS AND FINDINGS**

The social impact of IFMFIs on its beneficiaries was assessed using parameters like self-confidence level, social awareness, and skill development. The results of Paired t-test and ANOVA tests and major findings are given below.

#### **5.1. IMPACT ON SELF-CONFIDENCE**

To assess the impact on self-confidence, responses were collected from sample IFMFI beneficiaries on various sub-parameters of self-confidence for measuring the

level of self-confidence before and after joining IFMFI. It is observed from the primary analysis that the Self-confidence level before joining the interest-free microfinance programme was reported as 1.97. And Self-confidence has reportedly increased to 3.68 after joining the interest-free microfinance programme. So, it is found that Self confidence level of the majority of the IFMFI members increased after joining the microfinance.

The Paired Sample t-test shows that the self-confidence of beneficiaries after joining IFMFI (mean=3.68, SD=0.81) is higher than the self-confidence of beneficiaries before joining IFMFI (mean=1.97, SD=0.91) and the result is significant,  $t(452) = -32.18, p < 0.000$ . Therefore, it can be concluded that there were positive impacts on the self-confidence of IFMFI beneficiaries due to the intervention of Interest-free microfinance programmes.

To understand whether there is any significant variation in 'Self-confidence Level' across different types of IFMFIs namely the Society Model, Trust Model and Nidhi Model, the mean values of variables were taken. It is found that the self-confidence level of beneficiaries is higher for IFMFIs in Society Model (mean=4.07, SD=.62) than in Nidhi Model (mean=3.57, SD=.90). The mean values were lowest for the Trust Model of IFMFIs (mean=3.52, SD=.76). [Table 1](#)

**Table 1**

Table 1 ANOVA Statistics				
		N	Mean	Std. Deviation
Confidence	Society	158	4.07	.62
	Trust	175	3.52	.76
	Nidhi Model	120	3.57	.90
	Total	453	3.68	.81

Source Data Analysis using SPSS

To examine whether there is a significant difference between the Society model, Nidhi model and Trust model of IFMFIs in impact on self-confidence, One-way ANOVA is used. The result of One-way ANOVA is given below: [Table 2](#)

**Table 2**

Table 2 ANOVA- Types of IFMFIs						
		Sum of Squares	Df	Mean Square	F	Sig.
Confidence	Between Groups	24.802	2	12.401	20.152	.000
	Within Groups	276.921	450	.615		
	Total	301.724	452			

Source Data Analysis using SPSS

The results of the One-way ANOVA showed that there is a significant variation in the Self-confidence Level of IFMFI beneficiaries ( $p < 0.00, F = 20.152$ ) across different types of IFMFIs namely Society Model, Trust Model and Nidhi Model and found that the Society model (mean=4.07, SD= .62) is performing better in Impact on Self-confidence compared to other two models of interest-free microfinance in Kerala.

## 5.2. IMPACT ON SKILL DEVELOPMENT

It is also observed from the primary analysis that the Skill Development score before joining the interest-free microfinance programme was reported as 2.19. And the Skill Development score has reportedly increased to 3.49 after joining the interest-free microfinance programme. So, it is found that the Skill scores of majorities of the IFMFI beneficiaries increased after joining microfinance.

The Paired Sample t-test shows that the Skill Development score of beneficiaries after joining IFMFI (mean=3.49, SD=0.04) is higher than the Skill Development of beneficiaries before joining IFMFI (mean=2.19, SD=0.03) and the result is significant,  $t(452) = -28.02$ ,  $p < 0.000$ . Therefore, it can be concluded that there was a positive impact on the skill development of IFMFI beneficiaries due to the intervention of Interest-free microfinance programmes.

To understand whether there is any significant variation in 'Skill Development' across different types of IFMFIs namely the Society Model, Trust Model and Nidhi Model, the mean values of variables were taken. It is found that the Skill Development of beneficiaries is higher for IFMFIs in Society Model (mean=3.91, SD=.77) than in Trust Model (mean=3.38, SD=.79). The mean values were lowest for the Nidhi Model of IFMFIs (mean=3.29, SD=.87). [Table 3](#)

**Table 3**

Table 3 ANOVA Statistics				
		N	Mean	Std. Deviation
Skill development	Society	158	3.91	.77
	Trust	175	3.38	.79
	Nidhi Model	120	3.29	.87
	Total	453	3.49	.85

Source Data Analysis using SPSS

To examine whether there is a significant difference between the Society model, Nidhi model and Trust model of IFMFIs in impact on self-confidence, One-way ANOVA is used. The result of One-way ANOVA is given below: [Table 4](#)

**Table 4**

Table 4 ANOVA- Types of IFMFIs						
		Sum of Squares	Df	Mean Square	F	Sig.
Skill development	Between Groups	29.749	2	14.875	22.305	.000
	Within Groups	300.101	450	.667		
	Total	329.851	452			

Source Data Analysis using SPSS

The results of the One-way ANOVA showed that there is a significant variation in the Skill Development of IFMFI beneficiaries ( $p < 0.00$ ,  $F = 22.30$ ) across different types of IFMFIs namely the Society Model, Trust Model and Nidhi Model and found that the Society model (mean=3.91, SD= .77) is performing better in Impact on Skill Development compared to other two models of interest-free microfinance in Kerala.

### 5.3. IMPACT ON SOCIAL AWARENESS AND RESPONSIBILITY

It is also observed from the primary analysis that the score for social awareness and responsibility before joining the interest-free microfinance programme was reported as 1.64. And the social awareness and social responsibility score have reportedly increased to 3.04 after joining the interest-free microfinance programme. So, it is found that the social awareness and social responsibility of the majority of the IFMFI members increased after joining microfinance.

The Paired Sample t-test shows that the social awareness and social responsibility score of beneficiaries after joining IFMFI (mean=3.04, SD=0.45) is higher than the social awareness social responsibility score of beneficiaries before joining IFMFI (mean=1.64, SD=0.60). A paired t-test found this difference to be significant,  $t(452) = -38.69$ ,  $p < 0.000$ . Therefore, it can be concluded that there was a positive impact on social awareness and social responsibility of IFMFI beneficiaries due to the intervention of Interest-free microfinance programmes.

To understand whether there is any significant variation in 'Social Awareness and Social Responsibility across different types of IFMFIs namely the Society Model, Trust Model and Nidhi Model, the mean values of variables were taken. It is found that Social Awareness and Social Responsibility of beneficiaries is higher for IFMFIs in Society Model (mean=3.17, SD=.37) than in Nidhi Model (mean=3.01, SD=.49). The mean values were lowest for the Trust Model of IFMFIs (mean=2.96, SD=.44). [Table 5](#)

**Table 5**

Table 5 ANOVA Statistics				
		N	Mean	Std. Deviation
Awareness	Society	158	3.17	.37
	Trust	175	2.96	.44
	Nidhi Model	120	3.01	.49
	Total	453	3.04	.45

Source Data Analysis using SPSS

To examine whether there is a significant difference between the Society model, Nidhi model and Trust model of IFMFIs in impact on social awareness and social responsibility, One-way ANOVA is used. The result of One-way ANOVA is given below: [Table 6](#)

**Table 6**

Table 6 ANOVA- Types of IFMFIs						
		Sum of Squares	Df	Mean Square	F	Sig.
Awareness	Between Groups	3.334	2	1.667	8.366	.000
	Within Groups	89.674	450	.199		
	Total	93.009	452			

Source Data Analysis using SPSS

The results of the One-way ANOVA showed that there is a significant variation in Social Awareness and Social Responsibility of IFMFI beneficiaries ( $p < 0.00$ ,  $F = 8.36$ ) across different types of IFMFIs namely Society Model, Trust Model and Nidhi

Model and found that the Society model (mean=3.17, SD= .37) is performing better in Impact on social awareness and social responsibility compared to other two models of interest-free microfinance in Kerala.

## 6. CONCLUSION

Interest-free microfinance is one of the best models available in the microfinance landscape that aims to provide maximum social advantages to the poor rather than making more profit and return. The present study evaluates the impact of Interest-free Microfinance institutions (IFMFIs) on the Self-confidence, Skill Development and Social awareness and Responsibility of beneficiaries in Kerala. The study found that there is a positive impact on self-confidence, skill development and social awareness and Responsibility of IFMFI beneficiaries due to intervention of Interest-free microfinance programmes. The study has also made an attempt to examine whether there is any significant difference between the Society Model, Trust Model and Nidhi Model of Interest-free Microfinance in social impact and found that the Society Model of interest-free microfinance institutions is performing better in all social impact parameters compared to other two models. The results are suggestions for the policymakers and practitioners to formulate future strategies to better streamline the IFMFI industry.

## CONFLICT OF INTERESTS

None.

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