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Contributions of IMFs Programs to Household Financial Resilience: Financial Evolution of Households in Rural Areas

—The Case of Malagasy IMFs

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Abstract

Microfinance has been promoted by donors as an effective tool to ensure the financial resilience of the population in underdeveloped countries. Indeed, their main goal is to promote development in poor countries. In the new millennium, poverty reduction and financial resilience have become the watchwords of almost all the institutions involved in the socio-economic development of poor countries. But the problem is to know to what extent IMFs programs participate in the financial evolution of households? Based on the hypothesis that IMF programs will allow households to improve their financial situation, the objective of this study is to evaluate the contributions of microfinance activities on the financial evolution of households based on the results of an opinion survey analyzing the evolution of the monthly income and savings capacity of a sample of 200 households from the rural environment.

Keywords

Microfinance, Development, Income, Savings, Beneficiary

1. Introduction

Microfinance is one of the tools used to leverage poverty alleviation and development. It serves to break the vicious circle. Even if it is not a panacea, it has a very important place nowadays in the fight for poverty reduction and the promotion of development. Far from being a simple matter for bankers, microfinance is above all a tool for development (Joanna, 1996).

Analyzing development as a combination of mental and social changes that make it capable of cumulatively increasing the standard of living of households leads to a reflection on the definition of poverty. Absolute poverty is defined as the expenditure on a minimum of foodstuffs ensuring physiological reproduction, plus a conventional number of other expenses determined on the basis of the most modest family budgets. Relative poverty, on the other hand, is calculated by taking into account the income distribution of a given population, and the poverty line is defined by a specific quantile.

Considering financial services such as credit, savings and insurance as a mechanism for promoting financial resilience provides food for thought on the place of microfinance in household financial development. The explicit consideration of risk and vulnerability raises questions about the role of IMF programs in the household economy. These questions take on particular importance given the rise of microfinance and the expectations associated with it as a development tool, especially in rural areas.

As microfinance is a development tool, it contributes to a situation where society and the productive apparatus have the conditions for development. In other words, the objectives of an IMF are generally based on the principle of getting financially vulnerable individuals out of their situations to ensure sustainable development (Traoré, Bocoum, & Tamini, 2020). Madagascar has always made a big deal about improving and expanding microfinance for poverty reduction and development. This is still one of the reasons, in fact, for the appearance of various microfinance institutions (Conso, 1992). But the question is to what extent do IMF programs impact the financial evolution of rural households?

Indeed, the evolution of the income and savings of households that are members of an IMF, which is a function of program management, generally reflects the financial evolution of these households.

This study, therefore, aims to evaluate, through a sample of 200 rural households, the impact of microfinance institutions' actions on the financial evolution of households. More specifically, this research attempts to provide insight into the consequences of integration into IMF programs on the income and savings capacity of households.

Based on the assumption that IMFs programs will allow households to improve their financial situation, the results of a survey in the form of an opinion poll will be processed and analyzed statistically using the SPHINX data processing software.

2. Conceptual Cadre

The financial system, also known as the financial sector or financial infrastructure, includes all savings and financing opportunities, the financial institutions that provide these opportunities, and the financial institutions that provide the services (Aghion, Howitt, & Mayer-Foulkes, 2005).

Microfinance institutions can be non-governmental organizations (ONGs), savings and credit cooperatives, credit unions, state-owned banks, commercial banks, or non-bank financial institutions. The clients of these institutions are usually self-employed, low-income entrepreneurs in rural or urban areas.

As development organizations, microfinance institutions aim to meet the financial needs of underserved or unserved market segments from a development perspective.

Development goals typically include:

- Poverty reduction;
- Strengthening the social position of women or disadvantaged population groups;
- Creation of employment opportunities;
- Supporting the growth and diversification of existing businesses;
- Encouraging the creation of new businesses.

A World Bank study of credit projects identified the three most frequently cited objectives:

To generate employment and income opportunities through the creation and development of microenterprises.

Increase the productivity and income of socially vulnerable groups, especially women and the poor.

Reduce the dependence of rural families on drought risks through diversification of their income-generating activities.

Despite the many contextual variables in each country, the two long-term goals of microfinance remain outreach, i.e., serving those who have been left out by financial institutions (e.g., women, the poor, and indigenous and rural populations), and sustainability, which entails generating enough income to cover the costs of providing financial services.

The term microfinance refers to the provision of financial services to a clientele that is often excluded from the banking system, including small-scale self-employed people. Microfinance is a development tool thanks to the offer of financial and non-financial services. The financial services offer concerns savings and credit. Savings are the essential tool for investment. It helps to break the vicious circle of underdevelopment or poverty that results from the lack or weakness of income due to several factors, including excess population, bad climate, mentality, economic and political conditions, etc.

Savings guarantee development, which can only be achieved through good productivity and profitability.

The microfinance sector in Madagascar includes three types of organizations:

- "Member-based" and/or self-managed institutions, mostly mutualists, which collect savings and grant loans to their members.
- "Client-based" institutions, which are organizations whose main activity is the distribution of loans and which do not link borrowing to the constitution of prior savings.

- Projects with a "credit component" and ONGs or associations that do not consider credit to be their main activity, as credit is often seen as one component among others in the projects implemented.

3. Results

With the objective of evaluating the impact of microfinance institutions' actions on the financial evolution of households, this research attempts to provide an overall reflection on the impacts of the integration of households into MFI programs on the evolution of their income and savings capacities.

The methodological approach is based on the verification of the hypothesis that IMF programs will enable households to improve their financial situation. Thus, the hypothetical-deductive approach is the most appropriate. Indeed, the analysis is based on the results of research conducted with a sample of 200 households from rural areas. The data collected will then be statistically processed using SPHINX software to produce interpretations related to the theme.

3.1. Household Financial Situation

Livestock breeding and agriculture are the preferred occupations in rural areas of the Malagasy, particularly in our study area of mid-western Madagascar. According to our survey results shown in Figure 1, livestock farming predominates among the sources of income of rural households, with a significant percentage of respondents (32.1%) compared to agriculture (27.3%)[1]. And we have to admit that these jobs have changed in terms of income evolution according to the respondents' statements.

Indeed, more than the majority, i.e. 53%, consider that their daily income has increased and evolved, and even the 17% who stated that their income has increased significantly (Table A1).

However, when reading the statistics in Table 1, which is based on the respondents' opinions on their ability to save or the evolution of their savings, certain difficulties are felt by rural households. In fact, only a small minority of significant percentages of the respondents declare that they have the possibility of saving very often or always (2% to 11%). Nevertheless, more than the majority, i.e. 56%, admit to having this ability to save often[2].

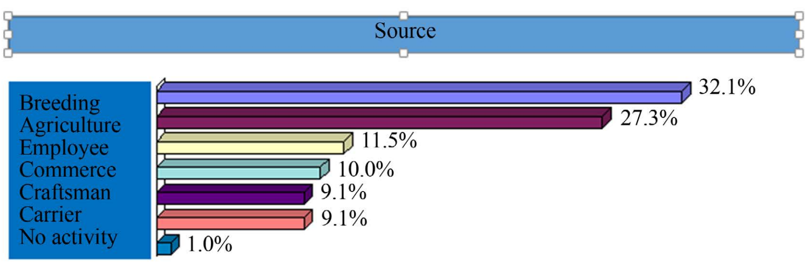

Figure 1. Distribution of income sources for rural households. Source: Authors, 2021.

[1]The difference with the reference distribution is very significant. chi2 = 108.55, ddl = 7, $1 - p \geq 99.99\%$.

[2]The dependence is very significant. chi2 = 90.12, ddl = 4, $1 - p \geq 99.99\%$.

Table 1. Distribution of rural households' opinions on savings.

Opinions/Savings Structure	Never	Rarely	Often	Very Often	Always	TOTAL
Savings opportunity	14.0%	17.0%	56.0%	2.0%	11.0%	100%
Evolution of savings	14.0%	13.0%	7.0%	57.0%	9.0%	100%
Overall	14.0%	15.0%	31.5%	29.5%	10.0%	100%

Source: Authors 2021.

3.2. Integration into Programs IMFs

3.2.1. Degree of Household Dependence on Programs IMFs

The whole range of financial services was offered by the IMFs, intended for the population groups in difficulty in rural areas, such as microcredits, small savings, microinsurance or other services whose objective is either to promote access to financial services for those excluded from the banking circuit or to encourage them to save more. Table 2 shows the distribution of the proportions of rural households who have or have not used the programme contracts offered by the IMFs. Generally speaking, the interest of the households surveyed in the IMFs' programmes can be seen, as 60% of the respondents often or even always agree with the question they are asked about having already used financial products. Only 16% admit that they have never had the opportunity to experience such financial transactions. In addition, the same table below describes the distribution of percentages of rural households on their dependence on programme contracts offered by IMFs. The statistics here also support the so-called effectiveness of IMF programme contracts for rural households. Indeed, just over 4 out of 10 households, or 40.5%, agreed that they had been contracting IMF programmes for more than 4 years and 17.9% for 2 to 4 years. The Chi-square tests on the two distributions studied establish significant p-values respectively associated with chi2 = 50.00, ddl = 4, $1 - p \geq 99.99\%$ for the IMF programme contract and chi2 = 11.14, ddl = 3, $1 - p = 98.90\%$ for the dependence on IMF programmes, thus ensuring the relevance of these trends of information on the place of the programme contracts proposed by the financial institutions in rural areas.

As for households' familiarity with the types of programs offered by IMFs, our study, through the chi-square test of independence, establishes a significant dependence between the opinions of the respondents and the different financial services offered by the IMFs[3]. Thus, the presentation of their opinions in Table 3, which compiles households' familiarity with the types of programmes offered by IMFs according to the four measurement items relating to credit, savings, insurance and account-keeping contracts makes it possible to deduce the behavior of the contracting households surveyed.

[3]The dependence is very significant. chi2 = 202.50, ddl = 12, $1 - p \geq 99.99\%$.

Table 2. Distributions of MFI Program contract and MFI program dependence of rural households.

Distributions	Opinions	Frequency
IMF Program Contract	Never	16.0%
	Rarely	10.0%
	Moderately	14.0%
	Often	48.0%
	Always	12.0%
Dependence on IMF programmes	Less than 1 year	22.6%
	1 to 2 years	19.0%
	2 to 4 years	17.9%
	More than 4 years	40.5%

Source: Authors 2021.

Table 3. Familiarity of households with types of MFI programmes.

Opinions/Familiarity with contract types	Never	Rarely	Used to	TOTAL
Credit	16.0%	18.0%	66.0%	100%
Saving	16.0%	21.0%	63.0%	100%
Account keeping	24.0%	18.0%	58.0%	100%
Insurance	97.0%	2.0%	1.0%	100%

Source: Authors 2021.

The first salient result is the general reluctance of rural households to take out an insurance contract, with 97% of them saying they had never used or heard of this type of financial product. However, the other types of programme interest more than half of the members, with 58% to 66% claiming to be used to taking out either "account management", "savings" or even "credit" contracts. However, the credit contract remains the most important service offered by IMFs, with 66% of clients stating that they often deal with this programme or are used to it (**Table A1**).

3.2.2. Reasons Given by Participants in IMFS

Furthermore, the analysis of the answers given by rural households summarised in **Table 4**, significantly establishes via the independence chi-square test that the first reasons generally given by the latter when applying for IMF programme contracts concern above all the extension of activities (59%) followed by new investment (58%). This situation evokes the need for the development of rural households in terms of professional activities and is also confirmed by our analyses, as the financial problem is only moderately advanced by a little less than the majority of respondents as a reason for requesting assistance from IMFs.

Table 4. Reasons given by participants in IMFS program contracts.

Opinions/Reasons or reasons given for contracts	Never	Rarely	Generally	TOTAL
Financial problem	28.0%	56.0%	16.0%	100%
New investment	28.0%	14.0%	58.0%	100%
Expansion of activity	25.0%	16.0%	59.0%	100%
Construction	28.0%	57.0%	15.0%	100%
Renovation	24.0%	54.0%	22.0%	100%

Source: Authors 2021.

Construction and renovation are rarely mentioned, although they were mentioned as reasons for requesting programme contracts from IMFs by slightly fewer than the majority of respondents (Table A1).

3.2.3. Allocation of Contracted IMF Programs

As previously stated in the analysis of the opinions of rural households, overall, the motives for requesting IMF programs concern above all new investments and the expansion of activities. Table 5 groups together the opinions of the beneficiaries of IMF programs on the different possibilities for allocating these gains, which are considered objective for rural households in times of acute need. The chi-square test of independence between the two characteristics at stake establishes significantly that according to 62% of the respondents, the allocation of IMF support is generally destined for agriculture and for 58.6% for savings. Our results also show that rarely do we see more than one out of two households among the beneficiaries using the MFIs' effective programs either for the purchase of inputs or school supplies or for transport or even for real estate.

4. Discussions

IMFs Programs Enhance Household Financial Development

The first highlight from our analyses of the impacts of household membership in IMF programs is the evolution of household income. These impacts are found to be very significantly dependent on the indicators of the Chi-square test of independence. Thus, Table 6 shows that exactly 3 out of 4 people who never benefited from or sought out financial offers from IMFs did not change their income situation at all or were unable to do so. Conversely, households that are always assisted by IFM programs following their requests almost all have seen their incomes evolve or change significantly. Moreover, 84.4% of those who say they often use the financial services of IMFs immediately notice their incomes changing. These dramatic effects are all attributed to the IMFs' program assets.

At the same time, the cross-analysis between the IMFs' program contracts and the households' opinions on their ability to save, using the chi-square test of independence was deemed very significant. We can see from Table 7 the contributions made by these IMFs to the financial situation of the contractors. Indeed,

Table 5. Use of programmes benefited by IMFs.

Opinions/Destination of use of IMF programs	Never	Rarely	generally	TOTAL
Agriculture	14.0%	24.0%	62.0%	100%
Business	23.0%	60.0%	17.0%	100%
Real estate	27.0%	58.0%	15.0%	100%
Transport	24.0%	54.0%	22.0%	100%
Children's schooling	21.0%	61.0%	18.0%	100%
Health and medical expenses	64.0%	15.0%	21.0%	100%
Purchasing inputs	21.0%	58.0%	21.0%	100%
Household goods	19.0%	60.0%	21.0%	100%
Food and feeding	67.0%	13.0%	20.0%	100%
Savings	22.2%	19.2%	58.6%	100%

Source: Authors 2021.

Table 6. IMFs program contract and income trends.

Evolution of revenues/Contracts MFI programs	Not at all evolved	Not evolved	Moderately evolved	Evolved	Very evolved	TOTAL
Never	27.5%	47.5%	10.5%	14.5%	0.0%	100%
Rarely	60.0%	20.0%	10.0%	0.0%	10.0%	100%
Moderately	21.4%	7.1%	28.6%	21.4%	21.4%	100%
Often	2.1%	4.2%	1.0%	84.4%	8.3%	100%
Always	0.5%	1.5%	2.0%	24.5%	72.5%	100%

Source: Authors 2021.

Table 7. IMF program contract and household savings opportunities.

Possibility of savings/Contracts MFI programs	Never	Rarely	Often	Very Often	Always	TOTAL
Never	36.0%	25.0%	36.0%	1.5%	1.5%	100%
Rarely	28.0%	10.0%	30.0%	2.0%	30.0%	100%
Moderately	14.3%	35.7%	21.4%	7.1%	21.4%	100%
Often	1.0%	4.2%	87.6%	1.0%	6.3%	100%
Always	25.0%	41.7%	8.3%	8.3%	16.7%	100%

Source: Authors 2021.

87.6% of the households that have often used the financial services offered also claim to have the possibility of saving often. It should be noted that 36% of households that have never had the opportunity to benefit from the program contracts admit that they have never had the opportunity to save in their lives.

Table 8. Program allocated to savings and evolution of savings.

Evolution of savings/Program assigned to savings	Very diminished	Diminished	Stagnated	Evolved	Very evolved	TOTAL
Never	13.6%	31.8%	9.1%	31.8%	13.6%	100%
Rarely	41.7%	8.3%	16.7%	25.0%	8.3%	100%
Moderately	14.3%	14.3%	28.6%	28.6%	14.3%	100%
Often	5.4%	4.1%	1.2%	87.2%	2.1%	100%
Always	9.1%	18.2%	9.1%	36.4%	27.3%	100%

Source: Authors 2021.

However, it is clear that reasonable or even rare assistance from IMFIs through their program contracts is effective because more than 4 out of 10 households, or more precisely 41.7% of households, stated that they were always able to save.

In addition, it is worth noting, following our analyses of the impact of the attribution of MFI programs to savings relative to their evolution, on the one hand, a significant dependence of these acts according to the Chi-square test and, on the other hand, the positive effect observed. In fact, according to Table 8, 87.2% of households that often contracted IMFs savings programs claim to have noticed their savings evolve and more than the majority, i.e. the 63.7% that systematically contract IMFs savings offers see their savings evolve or very evolve.

5. Conclusion

All economic growth requires the accumulation of capital. Despite the desire and willingness to lift oneself out of poverty, the lack of resources, especially financial resources, is an obstacle. Several previous theories and research studies have discussed the role of microfinance in the fight against poverty and in helping individuals who have been disadvantaged by the banking system to develop. The results of this research, based on a sample of 200 rural households, show that the contributions of MFI programs have had a positive impact not only on monthly household income but also on savings capacity.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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Appendix

Table A1. Table of distribution of the evolution of rural household incomes.

Evolution of revenues	Frequency
Evolved	53.0%
Very evolved	17.0%
Not at all evolved	12.0%
Not evolved	11.0%
Moderately evolved	7.0%
TOTAL	100%

Source: Authors 2021. The difference with the reference distribution is very significant. chi2 = 70.60, ddl = 4, $1 - p \geq 99.99\%$.