Sustainability of Microcredit Groups: A Comprehensive Study of Financial and Social Dimensions

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1. Introduction

Microcredit programs have emerged as a powerful tool for poverty alleviation and economic empowerment in developing countries. Those programs aim to disburse small credit facilities to individuals and groups to promote self-employment and financial access (Memon et al., 2020; Niranjala et al., 2024). Microcredit groups have emerged as a vital mechanism for promoting financial inclusion and alleviating poverty, especially in low-income and rural areas. These groups provide small loans to individuals who often lack access to traditional banking services due to a lack of collateral, credit history, or financial literacy. Microcredit groups facilitate economic empowerment and help lift individuals and families out of poverty by enabling borrowers to invest in income-generating activities, such as small businesses or agricultural ventures. *Microcredit group sustainability* refers to the long-term viability of a microcredit group in fulfilling its goals of financial empowerment and poverty alleviation for its members (Kayembe et al., 2021; Nwachukwu, 2014; Perera, 2021). It is a multifaceted concept encompassing financial health, social cohesion, and institutional robustness, and it is comprised with three aspects of sustainability, namely financial, social, and institutional sustainability (Bhuiyan et al., 2023; Sharif Hossain & Azam Khan, 2016). Financial and social sustainability directly affects a microcredit group's long-term viability. Financial sustainability indicates the loan repayment rate cost coverage and access to capital (Kinde, 2012; Memon et al., 2020). Social sustainability indicates trust and cooperation, social belief, social network, social capital, and relationships with members of microcredit groups (Firdaus, 2020; Zainuddin, 2017).

Despite their potential, microcredit groups face several challenges that hinder their sustainability. High default rates on loans, driven by factors such as inadequate financial education, economic shocks, and poor management practices, threaten the financial viability of these groups (Memon et al., 2020; Sharif Hossain & Azam Khan, 2016). Additionally, many microcredit groups operate in environments with limited market access and inadequate infrastructure, making it difficult for members to generate sufficient income to repay loans (Kinde, 2012; Nwachukwu, 2014; Perera, 2021). Microcredit groups are playing a significant role in empowering rural communities and however ensuring the long-term viability of microcredit groups, or their sustainability remains a key challenge (Hulme & Mosley, 2016). Social dynamics within groups, including issues related to trust, leadership, and conflict resolution, play a critical role in determining their effectiveness and sustainability (Kayembe et al., 2021; Zainuddin, 2017). Understanding these challenges is essential for improving the design and management of microcredit programs. Therefore, this study aims to investigate the factors influencing the sustainability of microcredit groups by exploring financial and social dimensions.

2. Materials and Methods

This study adopts a qualitative approach to explore the factors influencing the sustainability of microcredit groups, emphasizing an in-depth understanding of the financial, social, and dimensions affecting microcredit sustainability. Thirteen (13) microcredit groups operating in the Anuradhapura District were chosen for the study. The groups were selected using a purposive sampling method, which ensured that both successful and struggling were included. Semi-structured interviews were the primary data collection method, and the interviews with group leaders lasted 30 to 45 minutes. The responses under the criteria of group leaders in the rural and semi-urban areas in Anuradhapura District that currently have ongoing microcredit groups and have more than three years of operation period have been included in the sample. The groups with a minimum number of group members below three members and groups that are not functioning or have become dormant were excluded from the sample. The two dimensions of sustainability were identified using thematic analysis.

3. Results and Discussion

The socio-demographic profile of microcredit groups is affected by the sustainability of the microcredit group. Figure 1 presents the socio-demographic characteristics of the groups.

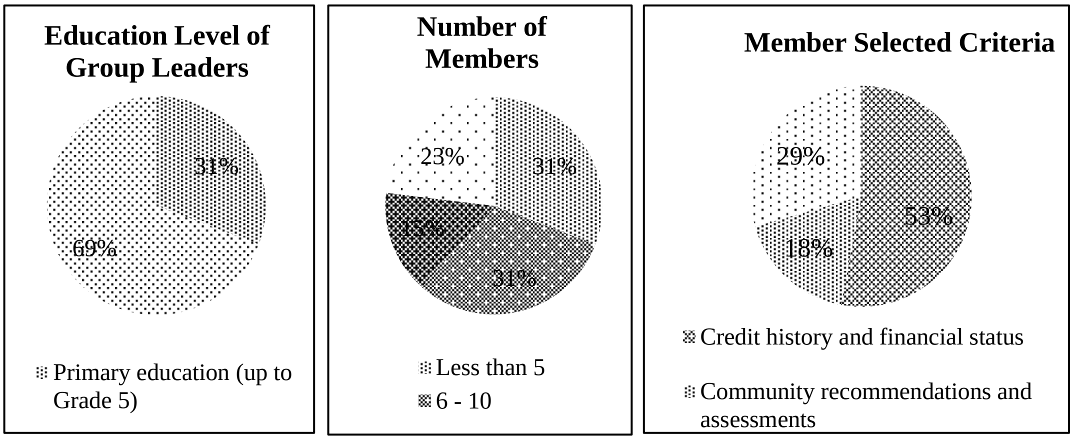

Figure 1: Socio-demographic Profile

Considering the education level, Figure 1 shows that 69% of group leaders have completed secondary education, and 31% have only completed primary education. Regarding the group size, some groups have as few as five or six members (C5, C6, C9, C10), and others, like C4 and C13, have up to 21 members. Member selection is primarily based on income level and financial need, with several groups (C1, C4, C8, C12, C13) also including government mandates such as Credit Information Bureau (CRIB) checks as part of the criteria. Additionally, community recommendations and assessments are used in a few cases (C4, C8), while groups like C9 and C10 have selected members based on their status as Samurdi beneficiaries, a government poverty alleviation program.

Table 1a: Key Findings - Key Dimensions of Sustainability of Microcredit Group

Themes	Categories	C1	C2	C3	C4	C5	C6	C7	C8	C9	C10	C11	C12	C13
Financial Sustainability	Loan Repayment Rates	*	*	*	*	*	*	*	*	*	*	*	*	*
	Access to Capital	*	*		*	*	*	*	*	*	*	*		
	Operation Cost									*		*		
Social Sustainability	Trust and Cooperation	*	*	*	*	*	*	*	*	*	*	*	*	*
	Social Network				*					*	*	*		
	Social Capital		*		*	*	*	*	*				*	*
	Social relationship with members	*		*		*		*	*	*	*	*		*

Source: Field Data, 2024

Considering the financial and social factors that affect the sustainability of microcredit groups, the key finding (Table 1a) presents the patterns observed during the 13 case studies. Three themes can be identified in the financial sustainability of microcredit groups: Loan repayment rate, Access to capital, and Operational cost. Social factors have become significant in microcredit group sustainability, especially Trust and Cooperation, Social Networks, Social Capital, and social relationships with members.

According to the main findings (Table 1b), C1, C2, C3, C4, C6, C8, and C9 mention that all members pay their installments on time. Respondents C5, C7, and C10 provide evidence that they cannot pay their installments on time because of the country's economic situation. The income levels of the group members are typically low, which has become a challenge while running the team. C7, C9, C10, and C11 revealed that some people have no primary income source and depend on the agricultural sector. Some groups have taken these microfinance loans to start a new business or improve their existing businesses. According to C9 and C11, there is no special consideration for the operational cost regarding their activities. Occasionally, transportation cost is considered as their operational cost.

Table 1b: Key Findings - Key Dimensions of Sustainability of Microcredit Group

Themes	Categories	Exemplary Quotes
Financial Sustainability	Loan Repayment Rates	"Our group has not had any cases where the members of the group were inconvenienced due to non-payment of installments" (C1). "There are people who are not self-employed and pay their installments from their salary, which is not enough to pay the loan installments and causes financial problems" (C7).
	Access to Capital	"Many of the members are farmers, and sometimes their income decreases, and because of that, they cannot pay their installments" (C7).
	Operation Cost	"There are many people in our group who are engaged in such business, and those who have taken loans from them have been successful in their businesses" (C2).
Social Sustainability	Trust and Cooperation	"There is good trust and cooperation among team members. In an emergency, if any member is unable to pay the installment, the other will help" (C8).
	Social Network	"We work as one team; if there is a special work of our family, we each other give a good help, e.g., wedding, constructing a house, and other special event of the family" (C9). "Normally, we help each other with our day-to-day work, especially agricultural activities where we need more labor. Therefore, our small group is very useful for us" (C10).
	Social Capital	"There are no family members in our group. It is better to involve trusted people who are not relatives or friends in the group. Even if we see a mistake made by another person in the group, we can say it to him without any problem because we have no close relationship" (C8). "When the members are selected for a loan facility, they are selected for their loyalty and friendships. After that, the group gets separated when they pay off the loan. This cannot be successful with friends and relatives" (C4). "When relatives and friends are members, problems arise in the team. If there are members who do not pay loan installments, this microcredit program in villages is not successful (C4).
	Social relationship with members	"Positive relationships positively impact our day-to-day activities" (C11). "Good relationship with team will positively impact our day-to-day activities" (C10).

Source: Field Data, 2024

Social factors have become significant in microcredit group sustainability, especially in a society with strong social networks and high trust. Trust and cooperation are consistently high across all groups (C1-C13), indicating a solid internal social dynamic that promotes mutual support and accountability. Hence, trust is the key to strengthening social bonds in social networks, which helps to achieve shared goals easily.

Building trust needs intensive interaction among individuals within a group. Respondents C1, C2, C3, and C4 provide evidence of how social networks affect group sustainability. Social capital, including shared values and common goals, is prevalent in many groups (C1, C5, C6, C7, C8, C12, C13), further reinforcing their social cohesion. Social capital, which encompasses two main elements, social networks, and trust, is critical for group sustainability. Social relationships among members, which promote interaction and trust, are present in the majority of the groups. C4, C5, C8, and C12 show strong social ties, which may enhance their resilience in the face of external challenges, contributing to overall group sustainability.

4. Conclusion

This study explored the factors influencing the sustainability of microcredit groups by examining financial and social dimensions by adopting a qualitative case study method. The investigation identifies the financial and social factors of microcredit group sustainability. Loan Repayment rates, Access to capital, and Operation costs were significant financial factors contributing to the sustainability of microcredit groups. Social factors are Trust and cooperation, social network, social capital, and social relationships with members of sustainability of microcredit groups. This study emphasizes the more critical approach to the main success to which microcredit groups can achieve goals and their business can succeed and contribute to economic growth, enhance borrower's capacity to manage their loan to support their business, and subsequently, they can manage repayment and success the group sustainability. Besides, according to the study, financial management training, lowering high-interest charges, and raising repayment awareness can help to improve microcredit groups while also improving individual borrowers' financial results and building a responsible financial culture.

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6. Keywords

Financial sustainability, Microcredit groups, social capital, Social sustainability

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