

MICROFINANCE IMPACT ON SHGS FINANCIAL EMPOWERMENT: A MICRO LEVEL STUDY OF INDIAN REGIONS

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Abstract

Microfinance is playing a significant role in reaching to those who have not been reached yet by the formal financial institutions and the world is seriously contemplating to minimize the gage between the haves and have-nots. the current study examines the impact of Microfinance on the economic Empowerment of Microfinance beneficiaries in the Kashmir Division of J & K State (India). The Swarge Gram Swarozgari Rojna (SGSY) program which was launched in the state in the year 1992 for poverty alleviation purpose and the creation of Self Help Groups (SHGs) was done in all the districts of J&K under this program. The present study made an attempt to examine the impact of microfinance on the Self Help Groups (SHGs) in the selected districts of India in Kashmir Division of J&K State (India). It is observed in this study that microfinance development has a significant impact on Economic empowerment of microfinance beneficiaries.

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Introduction:

There are two extreme ends of society, people who are suffering on account of extreme conditions of poverty and others who are enjoying all the privileges being affluent or opulent. The gap between these two extreme ends is increasing day in day out and the world is seriously contemplating to minimize this gap and to reach to those who have not been reached yet by formal institutions and in this respect microfinance concept is spreading fast across the globe. Microfinance is the provision of financial services to low-income clients, including consumers and the self-employed, who traditionally lack access to banking and related services. In both development and transition economies, microfinance has increasingly been positioned as one of the most important poverty reduction and local economic and social development policies. Its appeal is based on the widespread assumption that simply 'reaching the poor' with microcredit will automatically established a sustainable economic and social development trajectory animated by the poor themselves (Rath 2011). Micro finance arose in 1980s as a response to the doubt and research findings

Microfinance is defined as small loans that help poor people who wish to start or expand their small business. It is helping millions of poor people, especially poor rural women, with tiny loans so that they can start small business, create self-employment and improve their lives. It includes supply of loans, savings and other financial services to the poor (Khan, 2010). It is spreading very fast across the globe after the successful launch of Grameen Bank in Bangladesh. Microfinance which provides financial services such as credit, savings and insurance for low income clients is being considered an indispensable tool to fight the poverty. Microfinance has been evolved as an economic development approach intended to benefit low income women and men. The term refers to the provision of financial services to low income clients including the self employed (Lilitha, N 2003). When poor people have access to financial services, they can earn more, build their assets, and cushion themselves against external shocks. Poor households use microfinance to move from everyday survival to planning for the future. They invest in better nutrition, housing, health, and education which are key indicators of socio-economic empowerment (Kureel and Gazala, 2015). Empirical evidence reveals that clients are able to utilize microfinance products to increase their income and social welfare, and the microfinance is positively associated with increased income and asset buildup. Microfinance is a dominant

instrument to scrap poverty and transform lives. Microfinance interventions are well-recognized world over as an effective tool for poverty alleviation and improving socio-economic status of the rural poor. Microfinance through the network of co-operatives, commercial banks, regional rural banks, NABARD and NGOs has been largely supply driven (Jerinabi and Lalitha Devi 2010). Microfinance has played a significant role in developing economies where a sizeable population lives below the sustainable level and majority of their people do not have access to the financial services provided by the formal financial institutions. Although the concept of Microfinance was born in Bangladesh but it has become popular in such countries like India, Brazil, Pakistan, Sri Lanka and many other countries where poor were considered un-bankable. In India where more than 100 million people are still un-bankable, microfinance is being considered as essential tool to fight the poverty and to reach to those who have not been reached yet. In India 75 million household is requiring microfinance, 60 million in rural India and 15 million in urban households (Khan, 2010). Microfinance in the developing countries is seen as an important instrument of providing financial services to the most vulnerable and susceptible. Microfinance received impetus with the organization of micro-credit Summit in Washington DC in the February 1997, the Summit aimed at launching a global movement to reach to 100 million of the world's poor families by the year 2005. The outreach of Microfinance across the globe has shown a significant progress as it is seen that microfinance users has reached to an estimated level of 82.2 million and the savings exceeded the number of borrowers at 95.8 million and the total volume across the globe by the end of March 2010 has reached to US \$ 44.2 billion through 1400 microfinance institutions (Srinivasan 2010). The Mix top 100 list of Micro Finance Institutions (MFIs) provides a comparative assessment of performance of MFIs across the world. India had the maximum number of institutions in the top list, holding 20th place, followed by Ecuador (9), Egypt (6), the Philippines (6) and Bangladesh (5). The ranking was based on a joint assessment of outreach, efficiency, and transparency. Indian MFIs has secured higher than the others on account of continuing high client growth rates and their low cost operation (Srinivasan, 2010).

Microfinance in India

Like other developing countries, where microfinance has been taken as an indispensable tool to fight poverty, many gigantic institutions in India took the responsibility upon their shoulders to

reach the deprived class particularly the ones living in extreme conditions of poverty. Major initiative came in 1969 by nationalization of commercial banks, bank branches got extended in the rural area. India has over 35,000 rural branches of commercial banks and regional rural banks, and around 15,000 cooperative bank branches to bring the people under the purview of banking system. In 1978 integrated rural development program (IRDP) was introduced to alleviate India's rural poverty. A deep and serious contemplation for poverty alleviation in India is seen by some major initiatives like the setting up of Rashtriya Mahila Kosh to re-finance microfinance activities of NGOs, Establishment of SIDBI foundation for micro-credit (SFMC) as a financier of microfinance institution (MFIs), Bank linkage program under the overall guidance and supervision of the National Bank of Agriculture and Rural Development (NABARD), leading of Self Help Group (SHGs) as a part of priority sector, exemption of non-profit companies engaged in microfinance business from registering as non-banking financial companies (NBFCs). As a result of this, commercial banks (mainly in the public sector), regional rural banks (RRBs) and cooperative banks have emerged as important channels of microfinance provision and introduction of schemes like Swarn Jayanti Gram Swarozgar Yojana (sgsy) and Swa Shakti targeting rural poor routed through SHGs have given a new direction for poverty alleviation in the country. At present IRDP has been replaced by Swarnajayanti Gram Swarozgar Yojana (SGSY) which is explained as under:-

Swaranjayanti Gram Swarozgar Yojana / National Rural Livelihood Mission (SGSY/NRLM)

The Swarnjayanti Gram Swarozgar Yojana (SGSY) is a major on-going programme for the generation of self-employment of the rural poor people so that they can enhance their living conditions. SGSY is a holistic program covering all aspects of self-employment, viz organization of the rural poor into Self Help Groups (SHGs) and their capacity building, planning of activity clusters, building up of facilities of infrastructures, technology, credit and marketing. SGSY was launched on 01.04.1999 after restructuring and merging the erstwhile Integrated Rural Development Programme (IRDP). The Swarnjayanti Gram Swarozgar Yojana (SGSY) became major sustainable income generation through Self Employment and micro-enterprise development programme to be implemented by all the states of the country including State of Jammu and Kashmir. SGSY which is based on the cluster approach which puts emphasis on

identification of few key activities in each cluster or block, and helping in developing forward and backward linkages to establish sustainability in these self – employed activities. SGSY Program was replaced on 1st April 2003 by National Rural Livelihood Mission (NRLM) by ministry of Rural Development of India for building strong institutions of the poor and for the poor with special focus on enabling these institutions to access a range of financial services. The program aims at removing poverty through

financial inclusion, as well as developing a highly intensive program for intensive application of human and material resources in order to mobilize the poor into functionally effective and efficient institutions promote their inclusion in the mainstream financial sector and strengthen their livelihood. However under SGSY and NRLM the basic structure of creating the SHGs remains the same with some minor modifications. Self Help Groups (SHGs) is generally economically deprived homogeneous group formed through a process of self-selection with members ranging between 10 and 20. SHGs have well defined rules and by-laws, hold meetings regularly and maintain records, savings and credit discipline.

Objectives of the Study

- (i) To study the Microfinance development and progress of SHGs in India in reference to global Microfinance progress and development.
- (ii) To study the impact of Microfinance on Socio Economic conditions of SHGs in Indian region
- (iii) To make suggestions, on the basis of study results, for the effective development of microfinance and SHGs.

Hypothesis

The following Hypothesis is formulated taking into view the objectives of this study

H₀: The impact of microfinance on microfinance beneficiaries (SHGs) is not going in accordance with existing schemes for the specific purpose of Economic Empowerment of penurious class

H1: The impact of microfinance on microfinance beneficiaries (SHGs) is going in accordance with existing schemes for the specific purpose Economic Empowerment of penurious class

Methodology:

Collection of data: The study is based on the critical analysis of the available of literature as well as on both primary and secondary data. Extensive literature survey was carried out to understand the theoretical underpinnings and experience of different nations and regions on behalf of applying microfinance as effective tool for the development and upliftment of poor and empowering the most vulnerable. For this purpose a primary survey was carried out in various districts of Kashmir Division of the J&K State to capture the realistic experience and observation from the microfinance.

Database:

Primary data: The primary data was collected through direct investigation method. For this purpose, a schedule type questionnaire was designed which was administered to the beneficiaries of the microfinance schemes in the Districts of Indian Regions ..

Secondary data: In order to supplement the data collected through primary sources , various secondary sources were also explored which includes studies conducted and published in various academic and research journals and reports, besides relevant information available in the magazines , news papers and web-sites. Information was also collected from published data of NABARD publications, State level Banker's committee report, Census reports, Economic surveys, Statistical Digests and various dissertation and papers. Data has been collected from directorate of Rural Development Authorities Kashmir (DRDAK), and Directorate of Statistics & Economics.

Tools of Analysis: To study the microfinance and progress of SHG in the Indian regions, the data collected from various sources has thoroughly been analyzed. The data has been classified, tabulated, and arranged in a logical order. Tabular analysis has been done manually and using MS Excel and SPSS 16.0 version. Statistical tools like percentages, averages, and scaling

techniques have been used. In order to see the impact of microfinance on the socio-economic status of SHG beneficiaries, the same stock of beneficiaries have been taken at two time periods to draw the comparison between pre and post scores by using paired sample t-test.

The impact of microfinance on the economic conditions of SHGs in the Kashmir Division have been analyzed. Impact assessment is the structured study, which measures the impact on employment, income generation, nutrition, education, health, consumption, business development etc. There are various methodologies and tools adopted by researchers to see the impact of microfinance on microfinance beneficiaries. A brief reference to these methods is given as under: -

AIMS's Impact Assessment Method: Under this method of Impact Assessment (IA) study can be carried out at three different levels i.e., household level, enterprise level, and individual level. Impact on income, expenditure, asset position, and livelihood portfolio are being assessed at the household level, while as increase in the status and position of individual in the society and at family, besides change in the individual income level, expenditure pattern, living conditions, literacy position, awareness, accessibility, equality to the household community assets etc. are evaluated at the individual level of this method. At Enterprise level, change in profit, increase in business assets, increase in microenterprise revenue are being observed at this level.

In this study the same AIMS (Assessing the impact of microfinance services) approach for impact assessment has been used to see the impact on microfinance beneficiaries on economic empowerment. Further usually non- microfinance beneficiaries are being taken as the control group for assessment purpose, but here it has taken from the same stock of beneficiaries in the form of before and after program effects. The present study makes an attempt to evaluate the impact of microfinance on SHGs beneficiaries who have availed microfinance available under the SGSY scheme of the Govt. of India implemented in Kashmir Division. The main dimensions of the impact study are as under:-

A: Impact of Microfinance on Economic Empowerment of SHGs beneficiaries

- a) Impact of microfinance on individual income

- b) Impact of microfinance on individual Savings
- c) Impact of microfinance on Household income
- d) Impact of microfinance on Household savings
- e) Impact of microfinance on Business income
- f) Impact of microfinance on Business Assets

Findings of the study

The analysis, results and discussions of the study are carried as under

Impact of Microfinance on various Economic dimensions of SHGs beneficiaries of District in Badgam of Kashmir division of Indian region

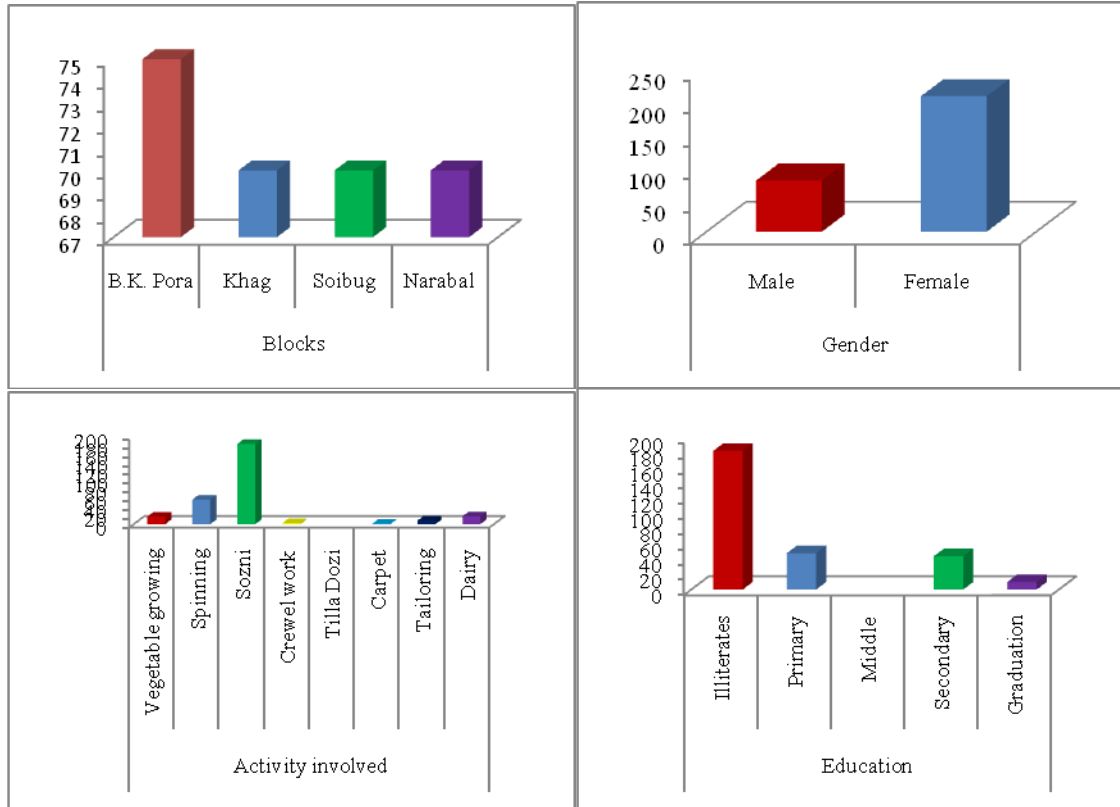
Profile of SHGs beneficiaries :

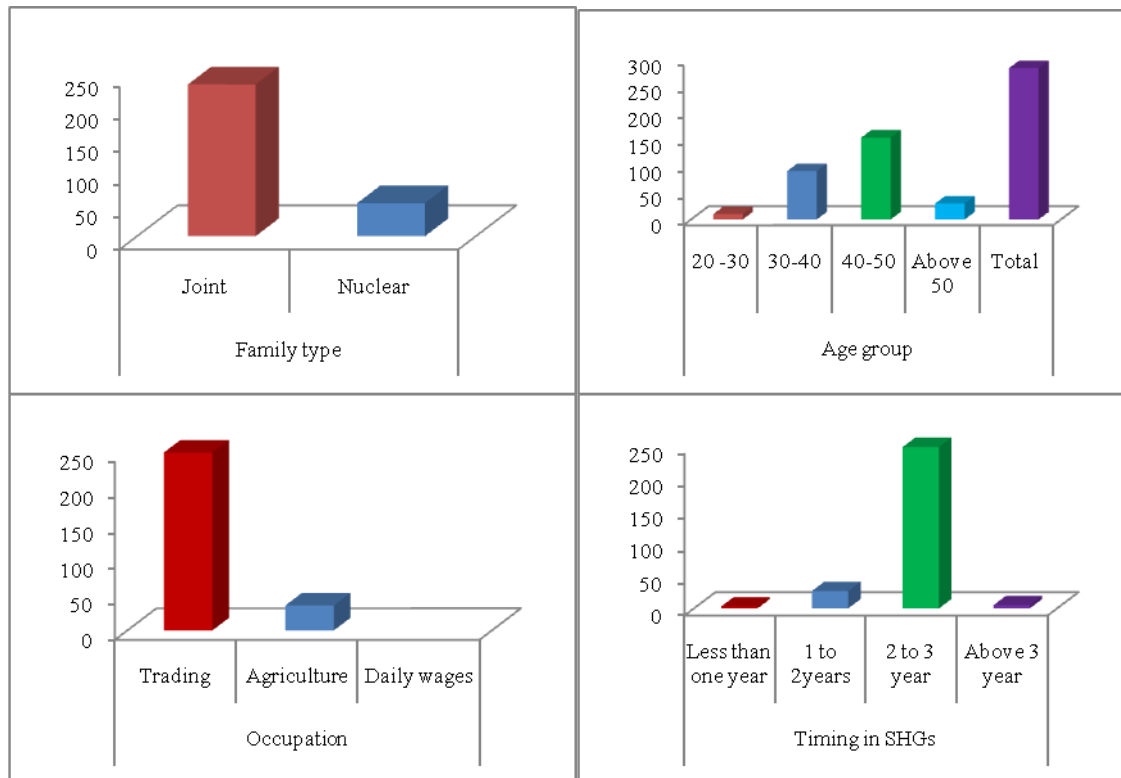
The district Budgam has the largest number of SHGs among all the districts in the Kashmir division (See table 1.1 & Exhibit .1). It is created 2333 SHGs were created in the district and among these 1794 have passed the grade 1st & 2nd stage. The district has 11 blocks in total with a total population of 7,35,753. The Literacy rate is 57.98%, the sex ratio is 887 females on 1000 males. The sample of 285 was taken from four blocks randomly by applying sampling technique. (Refer to Methodology Chapter for details). Samples taken were, 75 from B.K Pora, 70 from Khag, 70 from soibug 70 from Narabal. The sample consists of 207 of Female SHGs and 78 Male SHGs. The attributes of sample (in the Table 4.1) shows that most of the population are involved in Trading occupation viz 250 (87.7 %) 35 (12.3%) respondents are involved in Agriculture. It is found that the 183 (64.2%) respondents are involved in Sozni activity, 56 (19.6%) spinning, 18 (2.8%) with diary, 17(6%) vegetable growing, 8 (2.8%) tailoring, 8(2.8%), 2 (.7%) crewal work and 1(.4%) is dealing in carpet weaving. Majority of the respondent 154 (54.%) are in the 40-50 age groups followed by 91 (31.9%) who belong to 30-40 age group, 30 (10%) belongs to above the 50 years age group and 10 (3.5%) respondents are in the age of 20-30. 234 (82.1%) respondents are having joint families while as 51 (17.9) respondents belongs to nuclear families. Illiterates are dominated by respondents, 183 (64.2%) are having no education, 44 (16.8%) respondents are having secondary level of education, 48 (16.8%) have reached to primary level education and only 10 (3.5%) responds are graduates. 250 (87.7%) respondents are having 2 to 3 years in the SHGs 27 (12.83%) have completed their 1-2 years in the SHGs 3

(1.1%) have completed 1 year in the SHGs only 3 (1.8%) SHG are having 3 year in the SHGs (for sample selection refer to Methodology for details).

Exhibit 1

Attributes of sample representatives (District Budgam)





The results of the survey are discussed as follows

A: Impact on Economic and Financial Empowerment of SHGs

The table 1 reveals that individual income (mean difference -4.90877, t -27.390), and Individual savings (mean difference -3.23158, t -33.378), shows that there is significant difference between pre and post in variables of income and savings of microfinance beneficiaries. Since the t value of income (-27.390) and savings (-33.378) is highly significant at 5% level, it can be concluded that the income and savings of members has remarkably improved. Thus one of the features of SHG concept i.e. promoting income and saving habits of the members has been achieved

Table 1: Individual Income and Individual Savings

Variables	Mean score before intervention	Mean score after intervention	Mean difference	Standard deviation	t	P. Value Sign (2 tailed test)
Individual income pre – individual income post	2.5649	7.4737	-4.90877	3.02549	-27.390	.000
Individual savings pre – Individual savings post	1.3123	4.5439	-3.23158	1.63448	-33.378	.000

Source: Field Survey

The table 2 reveals that Household income (mean difference -2.76491, t -44.163), Household savings (mean difference -3.06316, t -42.683), Shows that there is significant between pre and post in the variable of Household income and savings of microfinance. The t value is highly significant at 5% level. It denotes that the members after SHG joining SHGs under the SGSY program, their household income and household savings had a positive impact. Thus the null hypothesis at 5% level of significance is rejected.

Table 2: Household income and Household Savings

Variables	Mean score before intervention	Mean score after intervention	Mean difference	Standard deviation	t	P. Value Sign (2 tailed test)
Household income pre – household income post	2.3439	5.1088	-2.76491	1.05692	-44.163	.000
Household savings pre – Household savings post	2.2491	5.3123	-3.06316	1.21154	-42.683	.000

Source: Field Survey

The table 3 reveals that Business income (mean difference -2.88421, t -59.976), Business assets (mean difference -1.94035, t --33.229), shows that there is significant difference between pre and post in the variable of Business income and Assets of microfinance beneficiaries. The t value is highly significant at 5% level of significance; it indicates that there is positive impact on the Business income and Business assets of the SHGs beneficiaries after they join the SGSY program.

Table 3: Business income and Business savings

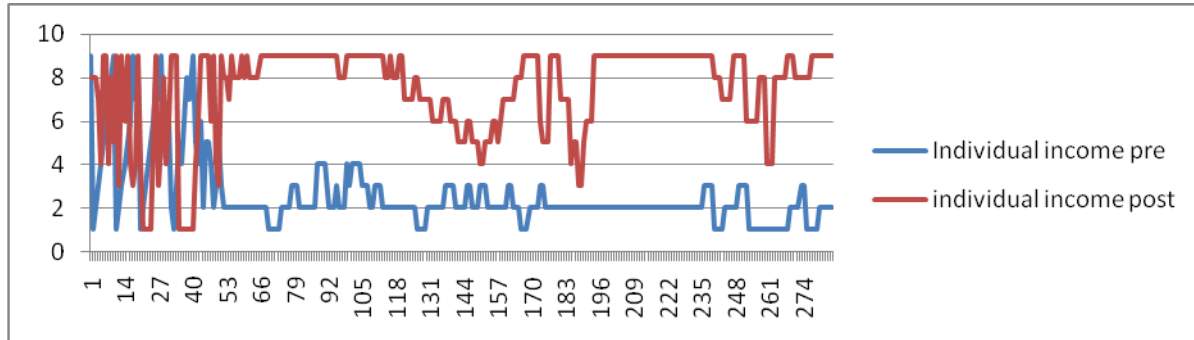
Variables	Mean score before intervention	Mean score after intervention	Mean difference	Standard deviation	t	P. Value Sign (2 tailed test)
Business income pre– Business income post	2.3263	5.2105	-2.88421	.81184	-59.976	.000
Business assets pre– Business assets post	1.9158	3.8561	-1.94035	.98579	-33.229	.000

Source: Field Survey

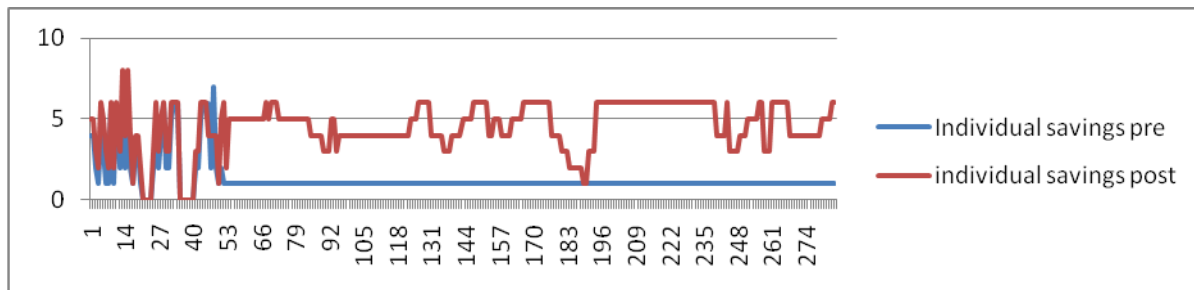
Graphic representation of variables drawn on District Budgam

A: Impact on Economic and Financial Empowerment of SHGs Graphical Presentation

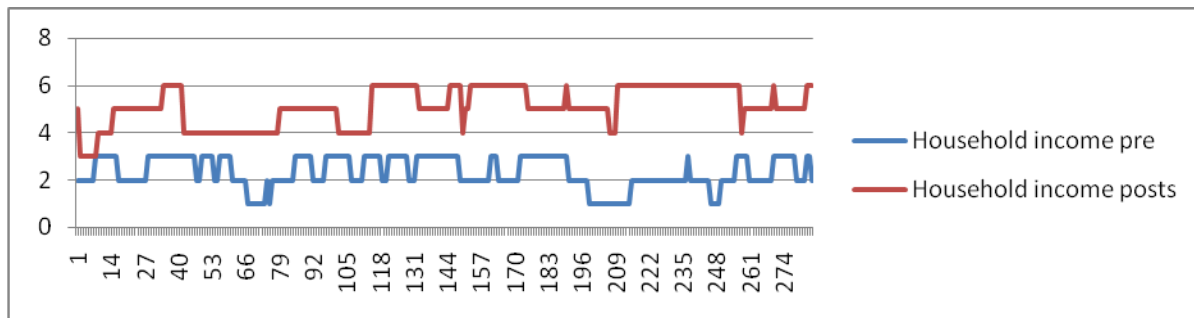
Graph 1: Impact of microfinance on individual income



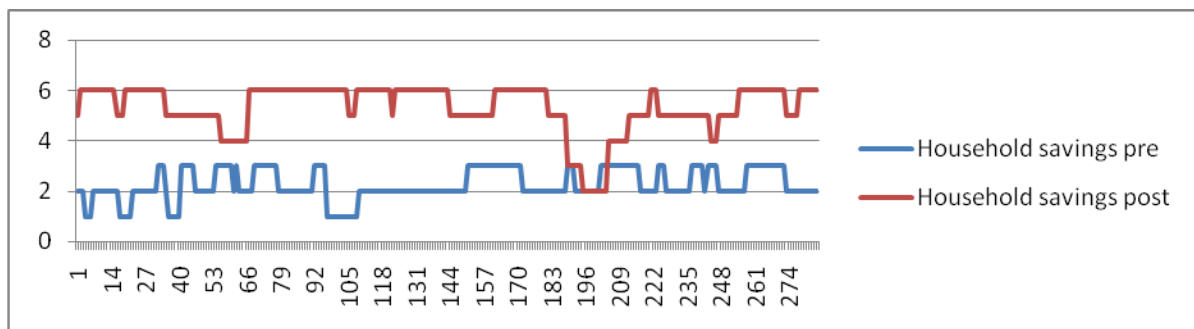
Graph .2: Impact of microfinance on individual savings



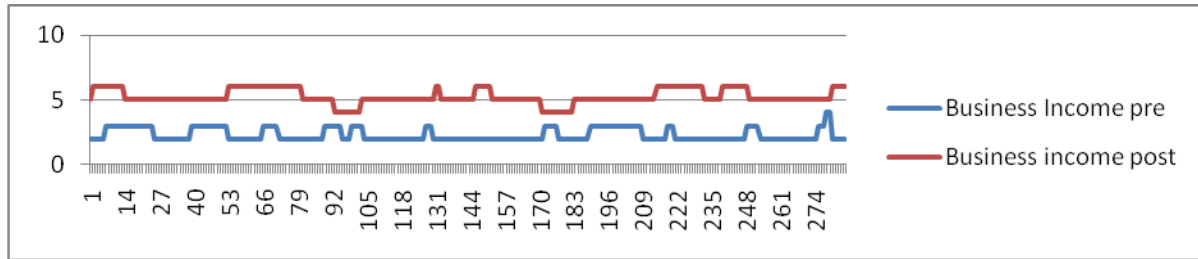
Graph 3: Impact of microfinance on Household income



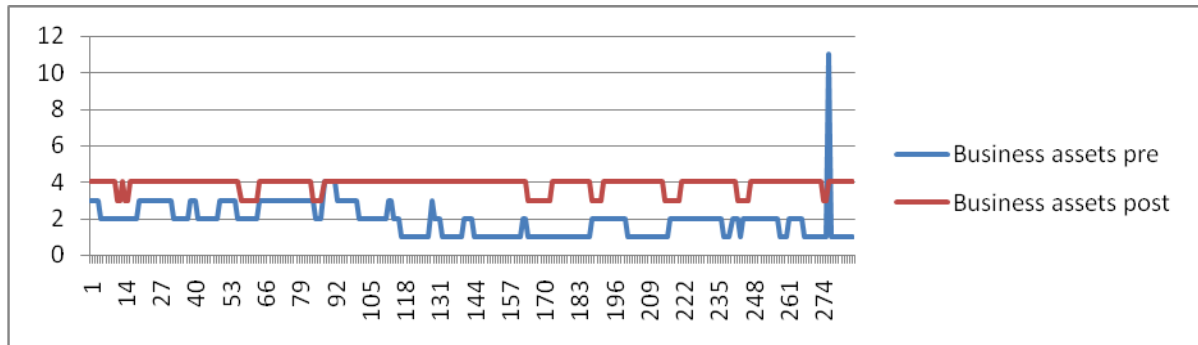
Graph 4: Impact of microfinance on Household savings



Graph 5: Impact of microfinance on Business income



Graph 6: Impact of microfinance on Business assets



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