

## Rural – Urban Differential Impact of Micro finance on SHGs beneficiaries on various poverty related dimensions

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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 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.

### 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 20<sup>th</sup> 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 (Srinavsan, 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 (SFMC0 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 Swaran 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 Grameen Swarozgar Yojana (SGSY)/NRLM. The programs is adopted in all the states of the country both in the rural as well as urban areas. The current study aims at the following objectives.

#### **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 Urban – Rural microfinance beneficiaries, a differential impact

#### **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 has 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: -

It is believed that poor in the rural areas are more vulnerable and deprived of poverty related dimensions. Three hundred and thirty two million people i.e., 73 percent of India's poor live in rural areas (Khaki 2014), who are suffering on accounts of various poverty related issues; Living standards; Education and Hygiene are the most visible dimensions. The rural poor are lagging behind in respect of Economic and financial empowerment as compared to Urban poor. The entrepreneurship venture and market facilities may have a better impact on economic empowerment on poor if a program like SGSY/NRLM is launched in the region/state, and apparently it seem that Urban poor can have edge over the rural poor in this respect. For the purpose of analyzing these differences, an independent samples t test has been carried out. The two groups Urban and Rural (Srinagar (Urban) and Rural districts viz Badgram, Kupwara and Gandeбал) have been tested in this study to verify the neighborhood Effects.

**Table 4.53: Differential impact of Microfinance –Neighborhood effects (Independent samples t- test)**

	Pre impact					Post Impact					
	Levene's Test for Equality of Variances		t-test for Equality of Means			Levene's Test for Equality of Variances		t-test for Equality of Means			
	F	Sig.	T	df	Sig. (2-tailed)	F	Sig.	t	df	Sig. (2-tailed)	

MPI Living std L	Equal variances assumed	10.185	.002	-4.044		.000	.313	.576	1.029		.304
	Equal variances not assumed			-2.765		0.15			1.188		.253
MPI Education	Equal variances assumed	1.650	.200	5.820		.000	8.328	.004	1.256		.210
	Equal variances not assumed			7.500		.000			1.821		.088
MPI Hygiene and Nutrition	Equal variances assumed	.329	..566	4.606		.000	7.109	.008	2.104		.030
	Equal variances not assumed			4.690		.000			1.536		.146
MPI Index	Equal variances assumed	14.868	.000	-367		.714	1.738	.188	.476		.634
	Equal variances not assumed			-213		.835			.682		.505

In the (Table 4.53) above, the Levene's independence t test also shows that Education for both Rural and Urban has not progressed much as compared to Living Standards and Health and Nutrition dimensions

**Table 4.54: Differential Impact of Microfinance –Neighborhood Effects (Independent Samples t-Test)**

Dimensions / indicators	Paired Samples Test Urban				Paired Samples Test Rural			
	Paired Differences				Paired Differences			
	Mean	Std. Error	T	Sig (2-tailed)	Mean	Std. Error	T	Sig (2-tailed)
Water	.0407000	.0065594	6.205	.000	0.408553	.0224621	16.594	.000
Toilet	.0370000	.0088447	4.183	.001	0.472877	.0010476	45.178	.000
Electricity	.0407000	.0065594	6.205	.000	0.441156	.0011797	37.394	.000
Flooring	.0407000	.0065594	6.205	.000	0.470010	.0010204	46.063	.000
Cooking	.0333000	.0090631	3.643	.003	0.4616645	.0013547	30.755	.000

Household assets	.0480081	.0009894	3.674	.003	0.480081	.0009894	48.520	.000
<b>Living Standards</b>	<b>.2257000</b>	<b>.0256725</b>	<b>8.792</b>	<b>.000</b>	<b>.2721931</b>	<b>.0035511</b>	<b>76.650</b>	<b>.000</b>
Schooling	----	-----	----	-----	0.449766	.0612514	35.942	.000
Children enrolment and dropouts	.0407000	.0085066	4.78	.000	.0025948	.0016656	1.558	.120
<b>Education</b>	<b>.0962000</b>	<b>.0085066</b>	<b>11.309</b>	<b>.000</b>	<b>0.0475714</b>	<b>.0019640</b>	<b>24.221</b>	<b>.000</b>
Hygiene	.0333000	.0007266	4.583	.000	0.477156	.0010843	44.007	.000
Nutrition	.0333000	.0090631	3.674	.003	0.435351	.0014077	30.927	.000
<b>Health and Nutrition</b>	<b>.0666000</b>	<b>.0134863</b>	<b>4.938</b>	<b>0.000</b>	<b>.0774117</b>	<b>.00301039</b>	<b>25.985</b>	<b>.000</b>
<b>MPI Index</b>	<b>.3885000</b>	<b>.0355167</b>	<b>10.939</b>	<b>.000</b>	<b>.3971763</b>	<b>.0063242</b>	<b>62.803</b>	<b>.000</b>

Note: Correction in respect of schooling of Urban is 0

The (table 454) above shows that deprivation reduction of Living standards (Urban 22.57%and 27.21% Rural), reduction level in Education is (9.62% Urban and 4.75% in Rural) and for Health and Nutrition reduction level is (6.66% Urban and 7.74% Rural). Education seems to be more effective in Urban as compared to Rural. The overall impact of reduction level of MPI is 38.85% for Urban and 39.71% for Rural which depicts that there is no significant difference between Rural and Urban beneficiaries

#### **Conclusion:**

Microfinance impact on urban rural is equally poised, however the scheme is more visible and beneficial for Rural poor as compared to urban poor

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