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### MICROFINANCE AND FINANCIAL INCLUSION OF RURAL WOMEN: A STUDY OF GADAG DISTRICT IN KARNATAKA

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#### ABSTRACT

In every country there will be always some section of people who are not able to access formal credit, or they have been excluded deliberately due to some reasons. And India is not an exception to this, in the country about half of the 'Bankable' population is kept out of the



banking facilities. Though banking sector has advanced technically, but in the outreach of rural client it is still lagging behind. The exclusion is of two types, geographical and social exclusion. Geographical exclusion is concerned with distance and infrastructure facilities due to which one cannot access banking

services. And the second one is concerned with societal norms, like women, who will be excluded if they do not have property in their name, a guarantor. But such an exclusion of eligible human resource from access to credit will hamper the growth process. The purpose of financial inclusion is to provide equitable opportunities for every individual to avail the facility of formal financial channels for a better life, better living and better income. In the category of equal opportunities to all, women occupy prime position, as they were the most excluded sections of society. Only two to five percent of the 500 million poorest households in the world have access to institutional credit. Of which, women receive a disproportionately small share of credit from formal banking institutions. So the financial inclusion becomes more meaning full when it facilitates with saving and credit facilities to un-bankable poor women. Microfinance aims to provide credit, saving, loan and insurance services to its clients. And this covers almost all necessities of financial inclusion. The present paper examined the role of microfinance on financial inclusion of rural women of Gadag district in Karnataka and concludes that microfinance has successfully connected the rural women to the formal banking institutions. So preferably more scope should be given to SBLP model and scrutinized MFIs.

**KEYWORDS:** *Financial Inclusion, Microfinance, Rural Women, SHGs.*

## INTRODUCTION

In every country there will be always some section of people who are not able to access formal credit, or they have been excluded deliberately due to some reasons. And India is not an exception to this, in the country about half of the 'Bankable' population is kept out of the banking facilities. Though banking sector has advanced technically, but in the outreach of rural client it is still lagging behind. The exclusion is of two types, geographical and social exclusion. Geographical exclusion is concerned with distance and infrastructure facilities due to which one cannot access banking services. And the second one is concerned with societal norms, like women, who will be excluded if they do not have property in their name, a guarantor. But such an exclusion of eligible human resource from access to credit will hamper the growth process. The purpose of financial inclusion is to provide equitable opportunities for every individual to avail the facility of formal financial channels for a better life, better living and better income. In the category of equal opportunities to all, women occupy prime position, as they were the most excluded sections of society. Only two to five percent of the 500 million poorest households in the world have access to institutional credit. Of which, women receive a disproportionately small share of credit from formal banking institutions. So the financial inclusion becomes more meaning full when it facilitates with saving and credit facilities to un-bankable poor women. Microfinance aims to provide credit, saving, loan and insurance services to its clients. And this covers almost all necessities of financial inclusion.

## OBJECTIVES

The main objectives of the present study are:

- 1) To study the active members of Stree Shakti promoted SHGs and SKDRDP promoted SHGs.
- 2) To identify the role of microfinance in financial inclusion of women.

## HYPOTHESIS

Ho: Microfinance does not lead to financial inclusion of women

Ha: Microfinance leads to financial inclusion of women

## RESEARCH METHODOLOGY

The present study is conducted in the Gadag district of North Karnataka. Gadag district has total 5 Among these 2 taluks were selected for the study, based on the highest number of women self-help groups present in the area. From each taluk, 8 villages were randomly selected. SHGs run by both the government and MFIs linked with banks, were selected randomly for the study. 4 SHGs were selected from each village, and in those 4 SHGs 2 are from Stree Shakti scheme and 2 from SKDRDP promoted SHGs. 32 SHGs from each taluk, total 64 SHGs were covered under study. Respondents were selected uniformly from each unit. 5 respondents from each SHG, 160 respondents from streeshakti and 160 respondents from SKDRDP, total 320 respondents were taken as a sample for quantitative data collection. As the study is based on both Qualitative and Quantitative data analysis (FGD) is done with 12 groups, it included SC/ST and others group, 6 groups from StreeShakti promoted and 6 groups from SKDRDP promoted SHGs respectively. In the Focused Group Discussion (FGD) 10 to 12 members from each group were participated.

The data collected from the beneficiaries are scored, tabulated and analysed by using simple statistical tools such as percentage, ratio-proportion and Chi -Square test. And all the data has helped in

formulating a very comprehensive case study.

### **Current Status of Financial Inclusion India**

The statistics on financial exclusion in India provides a very depressing picture. Out of over 600,000 rural habitations in the country, only about 30,000 or just 5% have a commercial bank branch. Just about 40 per cent of the populations across the country have bank accounts and this ratio is much lower in the north-eastern part of the country. The proportion of people having any kind of life insurance cover is as low as 10 per cent, and the proportion having non-life insurance is an abysmally low 0.6 percent. People having debit cards comprises only 13 per cent and those having credit cards a marginal 2 per cent. However, staggering these figures may seem, they still convey only part of the extent of financial exclusion in India.

Out of the total number of saving, bank accounts the vast majority are dormant. Status of active 'no frill accounts' is altogether alarming. All across India, less than 10% of the 'no frill accounts' are active. In the absence of financial literacy, very few conduct banking transactions and even few receive credit from formal financing channels. Millions of people across the country are thereby denied the opportunity to increase their earning capacity and entrepreneurial talent and continue to struggle with their limited resources.

Barriers associated with financial inclusion in India- There are some general hindrances in the way of implementation of financial inclusion projects in India.

- + The first barrier is associated with the vastness of the country. With so many geographical barriers, reaching into every nook and corner of the country is a big problem.
- + The next problem is associated with lack of infrastructural facilities to reach the rural poor. No transportation, electricity, proper buildings etc.
- + Vast spread financial illiteracy among poor, the problem is associated with the target group, can they actually reap the benefit of such projects.
- + No proper address or identity proof for the financially excluded people is a great hindrance in the fulfillment of KYC norms.

### **Microfinance address to the barriers of financial inclusion**

The attractive features of Microfinance have facilitated for addressing some common barriers to financial inclusion. It is useful in both supply and demand side barriers.

**Supply Side-** MFIs and SBLPs as a supplier of credit, provide financial products tailored to the requirements of low income groups. Need based formal credit is provided with minimum banking formalities. The microfinance programme is based on saving led credit model, saving first credit next. The clients are assured with the supply of saving, credit and insurance services. The customers are assured with transparency in each of their transaction.

**Demand Side-** Microfinance is successful in addressing the demand side barriers to financial inclusion. Such as asymmetry of information, cultural and psychological barriers and lack of financial literacy and financial competence among the clients. All these barriers collectively hold the clients to approach the formal banking system for credit or for other financial assistance. The low income people often in urgent need of small credit, for which they cannot approach big banks. The hesitation to approach for the financial assistance is removed by the MFIs effectively. They also provide basic training about

banking activities and financial literacy for the beginners and thereby raise the level of confidence in them.

The group model provides companionship to first time users of financial services. The fact that all transactions are conducted in group meetings ensures a degree of transparency and sense of security to members. All these design features suggest that microfinance may be a suitable means to promote financial inclusion

## RESULTS AND DISCUSSION

Financial Inclusion is the delivery of financial services like credit, saving, deposit, banklinkage, insurance many other, at an affordable costs to sections of disadvantaged and low income segments of society. And poor women with lack of collaterals were deliberately denied from this service. But it is assumed that with the introduction of SBLP (selehelp banklinkage programme) they got an opportunity to get formal banking services at their door step. To test the reliability of same assumption the present study has conducted chisquare test taking into account some indicators of financial inclusion. The results and findings are discussed below.

### Indicators for Measuring Financial inclusion of Women Through Microfinance

**Table-1**

Sl. No	Domain	Indicators
1	Financial inclusion of Women and Microfinance	<ol style="list-style-type: none"> <li>1. Increase in savings of the respondents</li> <li>2. Safe place for saving</li> <li>3. Easy access to formal credit</li> <li>4. Easy repayment of loan</li> <li>5. Increase in Banking activity</li> </ol>

Ho: Microfinance does not lead to financial inclusion of women

Ha: Microfinance leads to financial inclusion of women

The above stated hypothesis predicts the relationship between microfinance and financial inclusion of women. Here, financial inclusion is a dependent variable which varies due to changes in microfinance which is an independent variable. As the financial inclusion of women exhibits the changes in financial status of women due to participation in microfinance programme, the chi square test help to measure the probability of changes in the status of women is due to change in her participation on Microfinance programme.

**Table-2**  
**Microfinance and Financial Inclusion of Respondents After joining MFP**

Indicators	Before	After	Result of Chi Square test
Easy access to formal credit	50 (36.45) [5.04]	320 (333.55) [0.55]	$\chi^2 = 13.9067$ <b>d. f= 4</b> $4\chi^2_{\alpha} = 9.488$ $\alpha = 0.05$ <b>p &lt; 0.05</b> <b>p=0.007599</b> <b>R=Significant</b>
Safe place for saving	17 (31.53) [6.69]	303 (288.47) [0.73]	
Individual saving	32 (34.68) [0.21]	320 (317.32) [0.02]	
Banking activity	40 (35.47) [0.58]	320 (324.53) [0.06]	
Individual bank account	34 (34.88) [0.02]	320 (319.12) [0.00]	

Source: Field Survey

The figure in the brackets are the (expected cell totals) and figure in parenthesis were [the chi-square statistics for each cell]

**Interpretation of result:** The calculated  $\chi^2$  value is 13.9067 which is greater than the table value  $4\chi^2_{\alpha} = 9.488$  with 4 degrees of freedom and the calculated P- value, i.e.  $P=0.007599$  is much less than the significance level i.e.  $\alpha = 0.05$ . The small P- value indicates the level of significance, the smaller P value suggests that, the present sample provides enough evidence that we can reject the null hypothesis for the entire population and accept the alternate hypothesis. There is a significant influence of microfinance on financial inclusion of poor women. The above stated table and the reviewed literature states regarding the impact of microfinance on financial inclusion supports the alternative hypothesis and helps in rejecting the null hypothesis.

The following presented table will help in further discussion of the topic,

Table-3

Sl. No	Financial Inclusion Indicators	StreeShakti members N=160 for each indicator				SKDRDP members N=160 for each indicator				Total N=320 for each indicator				% of change
		Before		After		Before		After		Before		After		
		Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	
		N %	N %	N %	N %	N %	N %	N %	N %	N %	N %	N %	N %	
1	Individual Savings	13 8.12	147 91.87	160 100	00	19 11.87	141 88.12	160 100	00	32 10	288 90	320 100	00	90↑
2	Safe place for Saving	05 3.12	155 96.87	153 95.62	07 4.37	12 7.5	148 92.5	150 93.75	10 6.25	17 5.31	303 94.68	303 94.68	17 5.31	89↑
3	Easy to get Bank loan	06 3.75	154 96.25	157 98.12	03 1.87	10 6.25	150 93.75	158 98.75	02 1.25	16 5	304 95	315 98.43	05 1.56	93↑
4	Credit from formal source	12 7.5	148 92.5	160 100	00	38 23.75	122 76.25	160 100	00	50 15.62	270 84.37	320 100	00	84↑
5	Independent Bank account	09 5.62	151 94.37	160 100	00	25 15.62	135 84.37	160 100	00	34 10.62	286 89.37	320 100	00	89↑
6	Banking activity	08 5	152 95	160 100	00	32 20	128 80	160 100	00	40 12.5	280 87.5	320 100	00	87↑

Source: Field Survey

**1. Increase in savings of the respondents:** Compulsory and regular saving and theft are the essence of the Microfinance programme, which has benefited poor women. There were only 32 (10%) respondents who have Individual Saving before joining the Microfinance programme. After joining the Microfinance programme all the 320 (100%) respondents were, reported to have an Individual Saving account with formal bank.

**2. Safe place for saving:** Some 303 (94.68%) respondent states that, they have a safe place for saving which was denied before. The programme has encouraged and patronage small savings of poor women, which is a very important ingredient for financial inclusion. Only 17 (5.32%) respondents said that, they have a fear of loss of saving, if any of the member defaults payment, the group savings will be taken against credit. This is the greatest drawback of the Microfinance programme which must be taken care.

**3. Easy access to formal credit:** Poor are credit constrained, and never dreamed of formal credit, thanks to Microfinance programme, which has covered the excluded sections under the prominence of formal credit. The data's of the present study supports the same. Shows that, before joining the programme only 50 (15.62%) respondents were access to formal credit, which was upgraded to 320 (100%) after joining the programme. With the evidence from the field data, it can be concluded without a shadow of doubt that, Microfinance Programme has helped in obtaining formal credit to the poor women who were previously not able to obtain it.

**4. Increase in banking activity:** Poor women were kept away from the banking activity, lack of education and collaterals are one of the reasons for that. But after joining SHG women were easily accessible to formal banking activity. It is evident from the Table No. that, only 40(12.5%) respondents have been to banks and engaged in banking transaction before SHG, but after joining SHG all the 320(100%) respondents reported of engaged in banking activity and financial transaction.



**5.Exclusion in the selection of members:** Microfinance programme itself does not exclude any one by its own action. The programme is open for all, from age of 18- 60. It is left to the SHGs to include or exclude the persons of their own choice.

## CONCLUSION

Financial Inclusion means the inclusion of persons under formal banking system who were excluded before, from availing benefits from a formal financial institution. All the indicators used to measure the Impact of Microfinance on Financial Inclusion of Women in the present study, show the positive result and indicate the clear contribution towards financial inclusion of women through Microfinance programme.

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