"Impact of Microfinance on Rural development" (With special Reference to Gulbarga Division of Karnataka State)

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Abstract: *In this research paper an attempt has been made to highlight the impact of microfinance on rural development with special reference to Gulbarga division of Karnataka state. The paper mainly concentrates on how microfinance institutions have contributed to the improvement of standard of living of people in Gulbarga division. It also emphasizes on the need of further microfinance initiatives in Gulbarga division. This paper also throws light on how micro financial services are dependent of interest, satisfaction level and financial condition of rural people in Gulbarga division.*
Key Words: *SHG, NABARD, MFI, Rural Development, Microfinance, Financial Inclusion*

I. Introduction

    More than subsidies poor need access to credit. Lack of formal service make them non 'bankable'. This makes them to borrow from local moneylenders at high interest rates. Many new institutional mechanisms have been recognized across the world to improve credit to poor in the lack of formal debt.

    Microfinance refers to the delivery of various financial services like investments, credit, money transfers, insurance etc. in lesser amount for the poor to allow them to raise their income levels and develop living. Microfinance began in India way back in 1921 with the establishment of Syndicate Bank in the private sector. In its first years, the Syndicate Bank concentrated on raising micro deposits in the form of daily/weekly basis and sanctioned micro loans to its clients for shorter periods.

Microfinance Institutions Helps in -
- ➢ Empowerment of rural poor by improving their access to the formal credit system through various Microfinance innovations in a cost effective and sustainable manner.
- ➢ Provision of various financial services like savings, credit, money transfers, insurance etc. in small doses for the poor to enable them to raise their income levels and improve living.
- ➢ Eradicating Poverty and unemployment.
- ➢ Promoting Children's Education.
- ➢ Improving Health Outcomes for Women and Children
- ➢ Empowering Women

II. Gap In Literature Review
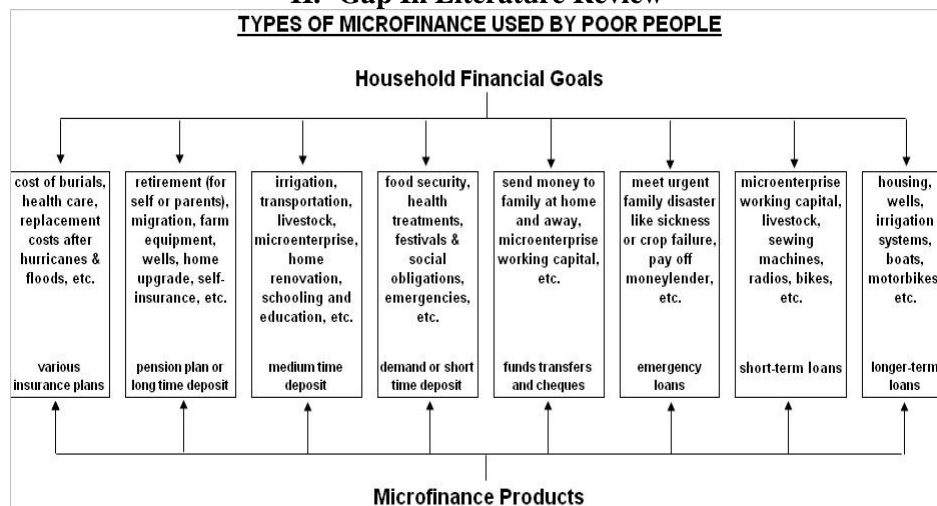
Source: Brett Matthews, Mathwood Consulting Company.

There are certain key characteristics of the rural poor with regard to their credit needs. Majority of them work as casual labour in the informal sector as hawkers, home-based producers and manual labor such as housemaids. Their credit needs often arise out of uncertain earnings and consequent disruption in their cash flow, medical emergencies, household needs and extortions by lawful or unlawful actors (Gaiha, 2005). There is lack of documented data about the impact of microfinance on rural development in Gulbarga division of Karnataka state. The present study attempts to examine analytically the impact of microfinance on rural développent in Gulbarga division of Karnataka state.

Objectives of the Study-
1. To know the impact of micro financial services initiatives on rural development of Gulbarga division.
2. To know whether there is need for microfinance initiatives in Gulbarga Division.
3. To assess the satisfaction level of microfinance clients for Microfinance services offered by Microfinance Institutions in Gulbarga Division.
4. To identify whether the Micro financial services initiatives are dependent of the interest and financial conditions of rural people.
5. To throw light on role played by Micro Financial institutions in Improving standard of living of rural people of Gulbarga division.

Hypothesis of Study:
H0: There is no significant association between Micro-financial Services Initiatives and Rural Development.
H01: There is a significant association between Micro-financial Services Initiatives and Rural Development.
H02: There is no significant association between Micro financial Services offered and satisfaction level of microfinance clients in Gulbarga District
 H12. There is significant association between Micro financial Services offered and satisfaction level of Microfinance clients in Gulbarga District
H03: Micro financial services initiatives are not dependent of the interest and Financial conditions of rural people.
H13. Micro financial services initiatives are dependent of the interest and Financial conditions of rural people
H04: Involvement of Micro -Financial Institution does not improve the standard of living of Poor families.
H14: Involvement of Micro -Financial Institution significantly improves the standard of living of Poor families.

III. Literature Review
Otero (1999), illustrates the various ways in which "microfinance, at its core combats poverty". She states that microfinance creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organisation building, enables people to move out of poverty (1999). By providing material capital to a poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society (Otero, 1999).
Goankar, Rekha. (2001), the study resolved that the program of SHGs can considerably add towards the decline of poverty and unemployment in the rural sector of the economy and the SHGs can lead to social change in terms of economic growth and the social modification.
Jayasheela, Dinesha P T and V.Basil Hans (2008), in their paper on "Financial inclusion and microfinance in India: An overview" studied the role of microfinance in the empowerment of people and provision of a sustainable credit availability to the rural low income population. The study relates to the opportunities available for the microfinance institutions with an increasing demand for credit in the rural areas due to inadequate formal sources of credit.
Verma, Renu.(2008), in her article concludes that microfinance is expected to play a significant role in poverty alleviation and rural development [J. Ref.No.30,P/163]. Microfinance has, in the recent past become one of the more premising ways to use core development funds to achieve the objectives of poverty alleviation. Further he stated that certain microfinance programs have gained prominence in the development field and beyond. The ultimate aim is to attain social and economic empowerment. These microfinance institutions may very well have had a major impact on improving the standard of living of millions of poor people as well as on promoting economic development. Therefore microfinance has become one of the utmost active involvements for economic enablement of the poor.
Vani Kamath (2010), "Finding usage in access to banking and scope for microfinance in Gulbarga District, Karnataka: A study of Financial Inclusion on Below Poverty Line Families" summarized in the thesis the points like There is a significant difference between Financial inclusion and lack of awareness by rural households. There is a significant difference between the financial inclusion and institutional negligence by banks. There is a significant difference between household perceptions about the formal and informal sources of finance. There is

a significant difference between access to a savings account and usage of that account. There is no significant difference in the perceptions of households between Self Help Group Savings and chit funds.

Ravikumar, (2016), "Contribution of Microfinance in empowering the women entrepreneurs in Gulbarga city" concluded in his article women entrepreneurs have been empowered in the different sections of their business operations and social status under the dynamic guidance and support of micro finance institutions and if women entrepreneur is given a proper guidance and training further that will definitely enhance the profitability of the enterprises and the future will be bright and prosperous.

IV. Research Methodology-

The study is an empirical one based on sample survey method. The study is basically dependent on primary data. The required primary data was collected by means of a questionnaire distributed in Gulbarga division. The secondary data was collected from the national and international

E-journals, Research articles, books and reports published by RBI, NABARD, and Newspapers etc .Gulbarga district is backward and nearly 40% of rural populations are away from banks. Thus, not formal credit delivery system plays very vital role in the Gulbarga district.

The sample is designed such that the study is NOT representative of any one MFI but represents responses of MFI clients in Gulbarga as a whole. Microfinance clients from Microfinance Institutions located in Gulbarga Division i.e from,S.K. S. Microfinance Institute, Spandana Spoorthy Microfinance ,Share Microfinance Institute, L& T Microfinance, Janalaxmi, Grameena Koota, Outreach Microfinance, HDFC Microfinance and Samruadhi Microfinance are selected for study purpose.

The total samples selected for the study was 485 respondents. Respondents were selected randomly irrespective of age, education and income level from Gulbarga district.

V. Data Analysis And Interpretation

Validation of the Questionnaire

The study uses structured questionnaires for the collection of primary data on perception of Micro-financial services and role of MFI in selected research area. They were validated after the pilot study and the Cronbach's Alpha scores for each questionnaire were found as follows:

Questionnaires Items	Gulbarga	No of Items
Social and Economical Parameter	.866	12
Service Satisfaction	.822	10
Asset based Indicator	.783	16

Table no. Cronbach's Alpha Scores (Validation of the Questionnaire)

1. Social and Economical Parameters:
This is one of the most important elements in understanding the impact of MFI in Rural Development. Validation results show that Cronbach's Alpha Scores is .866 which is highly satisfying scores to carry on the research in right direction.

2. Service Satisfaction :
The another important factor is Service satisfaction which is showing .822 Cronbach's Alpha Scores which is also highly satisfying to go ahead with the selected questionnaires items.

3. Asset based Indicator:
This indicator is showing the difference in assets creation before and after Micro financial services introduced to sample population. Cronbach's Alpha Scores is .783, is quite convincing in understanding the items selection for questionnaire.

Hypothesis- 01
H00: There is no significant association between Micro-financial services initiatives and rural development.
H11: There is a significant association between Micro-financial services initiatives and rural development.
Data Interpretations: Chi –square test has been applied to create the proof whether there is a noteworthy relationship exist between Micro-financial services initiatives and rural development or not.

Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Satisfaction with MFS * Improvement in Livelihoods	485	100.0%	0	.0%	485	100.0%

Satisfaction with MFS * Improvement in Livelihoods Cross tabulation

			Improvement in Livelihoods				
			Strongly Disagree	Disagree	Agree	Strongly Agree	Total
Satisfaction with MFS	Strongly Disagree	Count	6	0	8	0	14
		Expected Count	.3	3.1	8.7	2.0	14.0
	Disagree	Count	0	14	57	7	78
		Expected Count	1.4	17.2	48.2	11.1	78.0
	Agree	Count	3	87	189	50	329
		Expected Count	6.1	72.6	203.5	46.8	329.0
	Strongly Disagree	Count	0	6	46	12	64
		Expected Count	1.2	14.1	39.6	9.1	64.0
Total		Count	9	107	300	69	485
		Expected Count	9.0	107.0	300.0	69.0	485.0

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.506E2[a]	9	.000
Likelihood Ratio	59.262	9	.000
Linear-by-Linear Association	12.523	1	.000
N of Valid Cases	485		

a. 5 cells (31.3%) have expected count less than 5. The minimum expected count is .26.

Symmetric Measures

		Value	Asymp. Std. Error[a]	Approx. T[b]	Approx. Sig.[a]
Nominal by Nominal	Contingency Coefficient	.487			.000
Interval by Interval	Pearson's R	.161	.049	3.582	.000[c]
Ordinal by Ordinal	Spearman Correlation	.109	.041	2.421	.016[c]
N of Valid Cases		485			

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

c. Based on normal approximation.

Results: Chi Square test has been utilized to see the association between Micro-finance service initiatives and rural development and the chi square calculated value which is .000, significantly lower than p value.05; so rejecting the null hypothesis and establishing the evidence that there is a significance association between Micro-financial Services initiatives and rural development in selected districts.

Hypothesis-02

H02: There is no significant association between micro financial Services offered and satisfaction level in Gulbarga District
H12. There is significant association between micro financial Services offered and satisfaction level in Gulbarga District

Interpretation:
Chi Square test has been used to see whether there is any significant association exists in need of micro financial services and Micro- financial services satisfaction in given sample size considering the Dwelling and Food Factor along with Services offered.

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Need of Micro-Financial services * Micro financial Services Satisfaction	200	100.0%	0	.0%	200	100.0%

Need of Micro-Financial services * Micro financial Services Satisfaction Cross tabulation

			Micro financial Services Satisfaction			
			High	Medium	Low	Total
Need of Micro-Financial services	Strongly Disagree	Count	12	0	6	18
		Expected Count	9.6	4.9	3.5	18.0
	Disagree	Count	9	1	6	16
		Expected Count	8.6	4.3	3.1	16.0
	Agree	Count	64	52	27	143
		Expected Count	76.5	38.6	27.9	143.0
	Strongly Agree	Count	22	1	0	23
		Expected Count	12.3	6.2	4.5	23.0
Total		Count	107	54	39	200
		Expected Count	107.0	54.0	39.0	200.0

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	35.653[a]	6	.000
Likelihood Ratio	45.828	6	.000
Linear-by-Linear Association	4.311	1	.038
N of Valid Cases	200		

a. 5 cells (41.7%) have expected count less than 5. The minimum expected count is 3.12.

Directional Measures

			Value	Asymp. Std. Error[a]	Approx. T[b]	Approx. Sig.
Nominal by Nominal	Uncertainty Coefficient	Symmetric	.120	.023	4.902	.000[c]
		Need of Micro-Fiancial services Dependent	.126	.023	4.902	.000[c]
		Micro financial Services Satisfaction Dependent	.114	.023	4.902	.000[c]

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

c. Likelihood ratio chi-square probability.

Symmetric Measures

		Value	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.389	.000
N of Valid Cases		200	

Results: Chi Square test applied and Pearson chi-square calculated value which is .000 is lower than the p value of 0.05; hence null hypothesis stands rejected and establish the fact that there is significant association between satisfaction level of clients and microfinance initiative and there is more need of Micro finance services in Gulbarga District.

Hypothesis -3
H03 – Micro finance service initiatives are not dependent of the interest & financial condition of rural people.
H13 - Micro finance service initiatives are dependent on the interest & financial condition of rural people.

Interpretation:
The chi square test has been applied to see if there any significant association is there between the economical or financial status of the people and Micro finance service offered in the researchable area. Cross tabulation was conducted between economic impact and MFS Satisfaction level to understand the association between both the factors whether it exist and independent in their nature.

Table 1. Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Economical impact * MFS satisfaction level	485	100.0%	0	.0%	485	100.0%

Table 1.1Economical impact * MFS satisfaction level Cross tabulation

			MFS satisfaction level			Total
			High	Medium	Low	
Economical impact	Increase/improved	Count	322	83	21	426
		Expected Count	320.6	87.0	18.4	426.0
	No change	Count	28	10	0	38
		Expected Count	28.6	7.8	1.6	38.0
	Decrease/Reduced	Count	15	6	0	21
		Expected Count	15.8	4.3	.9	21.0
Total		Count	365	99	21	485
		Expected Count	365.0	99.0	21.0	485.0

Table : 1.3 Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	4.482[a]	4	.345
Likelihood Ratio	6.893	4	.142
Linear-by-Linear Association	.050	1	.824
N of Valid Cases	485		

a. 3 cells (33.3%) have expected count less than 5. The minimum expected count is .91.

Table1.4 Symmetric Measures

		Value	Asymp. Std. Error[a]	Approx. T[b]	Approx. Sig.[a]
Nominal by Nominal	Contingency Coefficient	.096			.345
Interval by Interval	Pearson's R	-.010	.039	-.222	.824[c]
Ordinal by Ordinal	Spearman Correlation	.011	.045	.237	.812[c]
N of Valid Cases		485			

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

c. Based on normal approximation.
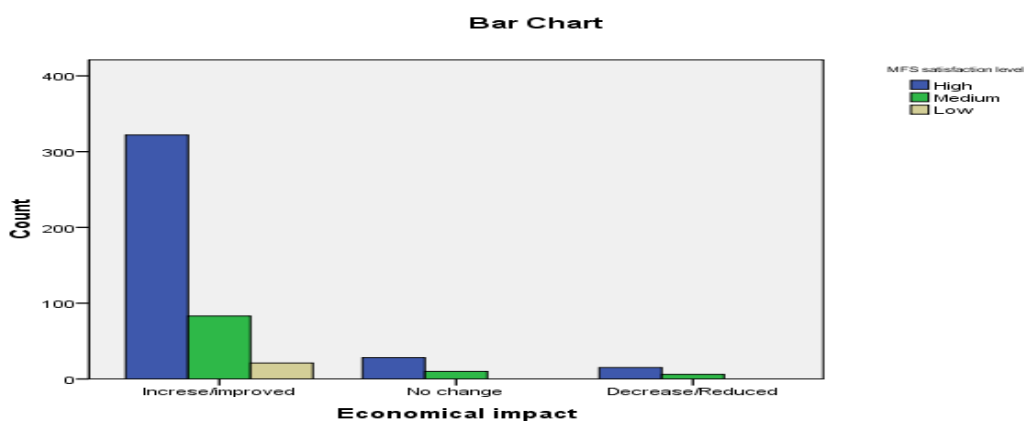
Result: The result of chi square test is where calculated value of Pearson chi-square is .345 which is lesser than the tabulated value of p (0.05) which is 9.488; hence we reject the null hypothesis and establish the evidence that the Micro financial services initiatives are dependent on the interest & financial condition of rural people.

Hypothesis- 04
H04: Involvement of Micro -Financial Institution does not improve the standard of living of rural people in selected district.
H14: Involvement of Micro -Financial Institution significantly improves the standard of living of rural people in selected district.

Interpretation: Paired Sample T-Test used to analyze the pre and Post effect of Micro-Financial Institutions in improving standard of living of Below-Poverty- Lines Populations.
Here 16 items were selected to understand the impact of MFI's on Standard of livings for the given 485 respondents in selected districts.

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Acquired before MFS	2.06	16	.854	.213
	Acquired after MFS	3.31	16	.704	.176

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	Acquired before MFS & Acquired after MFS	16	-.811	.000

Paired Samples Test

	Paired Differences							
				95% Confidence Interval of the Difference				
	Mean	Std. Deviation	Std. Error Mean	Lower	Upper	t	df	Sig. (2-tailed)
Pair 1 Acquired before MFS - Acquired after MFS	-1.250	1.483	.371	-2.040	-.460	-3.371	15	.004

Results: The outcome of the Paired Sample T-test explicitly indicates, where the P- value (.004), which is lower than .05, that Involvement of micro-financial institutions are significantly improving the standard of life of rural people in selected Districts.

VI. Conclusion

In a nut shell, we can say Microfinance tries to overcome the short comings and failures of the existing financial institutions and development programmes by providing adequate and hassle free finance to the needy and also acts as gap filler in the formal institutional network for providing small finance to poor people.

Gulbarga District has been in the forefront in the adoption of Micro finance operations. Micro finance created a fruitful atmosphere in Gulbarga district. Various NGOs/SHPIs have working actively. Financial institution viz., Commercial Banks, Regional Rural Banks and Gulbarga District Central Cooperative Bank are also playing the key role of "Credit Purveyor" to SHGs. Government sectors are promoting "Stree Shakti" Groups on the basis of sources available about 62% of the households eligible to be covered under SHG. There are about 65,763 Marginal farmers and 130271 small farmers' families in the district. The district has in all 47 NGOs in which 16 are actively involved in promotion/Nurturing of SHGs. There are six major MFIs operating actively in the district by providing credit to rural people.

To sum up, it can be noticed from overall analysis that there is significant impact of microfinance activities on improvement of the living standard of the family not only in economic term but also in social term. From this study, conclusion can be drawn that there is a noticeable and positive impact of microfinance activities on the living standards, empowerment and poverty alleviation among the poor people in the society.

There are MFIs active in Gulbarga. Further it is observed that the share of the poor in the portfolio of these MFIs is noticeably higher than in the other three regions i.e. Bangalore, Belgaum and Mysore, Gulbarga may not meet the expectations of stakeholders in terms of potential scale. There are MFIs active in the area already serving the poor and they provide a strong option to the regulator to further expand financial inclusion efforts in Gulbarga.

A place like Gulbarga which is the less developed districts of the country is a big task to the microfinance model to revolutionize on multiple fronts including products, processes and technologies. There is a need for Microfinance Initiatives in Gulbarga division as it has a positive impact on rural development in Gulbarga division.

The study is confined to Gulbarga division of Karnataka state, the division consists of Gulbarga,Raichur,Bidar,Yadgir and Koppal each district has lot of potentiality to develop Microfinance Institutions. Compared to the four different regions of Bangalore, Mysore, Belgaum and Gulbarga, it was observed Gulbarga is economically least developed that lagged significantly behind the other three with only 10% of the total MFI presence in Karnataka while Gulbarga has 18% of the total population of Karnataka

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