



www.eprawisdom.com

Research Paper

ROLE OF MICROFINANCE INITIATIVES IN FINANCIAL LITERACY AND ECONOMIC EMPOWERMENT OF RURAL WOMEN; A STUDY WITH SPECIAL REFERENCE TO IDUKKI DISTRICT OF KERALA

James Varghese¹

¹Assistant Professor, Department of Commerce, St. Thomas College Palai, Arunapuram P.O., Kottayam, Kerala, India

Nimmy Jose²

²M.Com. Student, Department of Commerce, St. Thomas College Palai, Arunapuram P.O., Kottayam, Kerala, India.

ABSTRACT

The role played by the microfinance institutions in the rural area of Kerala in the enhancement of financial literacy of women and their economic empowerment caused by the same is examined. An effort to describe the status augmentation originated among rural women clearly proved the premise that the financial intermediation by the microfinance initiatives plays an essential function in the awakening of rural women economically, which is a consequence of financial literacy grounded by such intermediation in the form of group credit schemes and employment generation. Three hundred responses collected from fifty microfinance units operating in an agro-based rural area were analyzed both parametrically and non-parametrically and it is concluded that the microfinance initiatives are successful in functioning as an agency of financial literacy and economic empowerment of women.

KEY WORDS: microfinance, financial literacy, rural women, economic empowerment, kudumbasree units, Idukki

INTRODUCTION

The concept of microfinance has captured the attention of development practitioners and political and social strategists around the globe, as microfinance institutions are of pivotal importance in the development of rural people in both developing and under developed countries. Indian economy raises no exception to this crucial and fundamental role of microfinance. "Microfinance means provision for thrift, credit and other financial services and products of very small amounts to the poor in rural, semi urban or urban areas for enabling them to raise their income levels and improving living standards" (National Microfinance Task Force India, 1999). The theoretical background of microfinance was presented by Lysander Spooner during middle 1800s and it came in to existence as what is seen today in 1970 when Mohammad Yunus

coordinated the introduction of Grameen Bank of Bangladesh. It is estimated that more than sixteen million people are served by microfinance institutions around the world. There exists a huge amount of research covering the diversified aspects of microfinance revolution. Financial literacy is one among them. In the view of some researches financial literacy is a broad concept. Mason and Wilson (2000) define financial literacy as "an individual's ability to obtain, understand and evaluate the relevant information necessary to make decision with an awareness of the likely financial consequences". Financial literacy involves both the understanding of basic financial concepts and the ability and discipline to use that information to make wise personal and financial decisions. These decisions include spending decisions, saving and investing decisions, budget management decisions, selection of



right financial products and readiness to address occasional or contingent life events. In the State of Kerala, which is commonly known as 'God's Own Country', there are many microfinance initiatives for both men and women. The study focuses here the role of microfinance initiatives in Kerala in enhancing the financial literacy among women.

The study focuses here on two important elements of financial well being of the society, viz. microfinance initiatives and financial literacy initiatives. Both of the elements under consideration were of immense importance to researchers of all spheres. Anna Custers (2011) found that the financial literacy programme provided to the members increased their financial literacy and the results emphasized the importance of such training programmes among poor. R Ramakrishnan (2013) shows that the increase of financial literacy supports social inclusion and enhances the community well being. Financial literacy can be seen as the first step towards the alleviation of poverty and development. Financial literacy plays a vital role in the efficient allocation of household savings and enabling the individuals to meet their financial goals. Financial literacy is essential for the financial inclusion. Alejandro Drexle, et al. (2014) explained that the changes in the financial literacy will construct transformations in the business outcome. Sobhesh Kumar Agarwalla, et al. (2015) focused on financial literacy interventions for improving financial literacy among rural women and concluded that financial literacy training programmes have both long term and short term impact. William G. Gale et al. (2015) found out that financial literacy helps to increase the saving habits of the people. V. Basil Hans (2009) clearly states that MFIs ensures building an inclusive society and justifies the move of microfinance initiatives from financial intermediation to social intermediation. Sudhin Kumar Bera (2011) pointed out the need of women for more information for exploring profitable avenues. It was proved that SHGs caused the increase in the annual income and the saving habit of the people. Ramu Maurya (2011) identified the problems faced by poor people and the lenders such as high interest rate, high default rate, etc. and emphasized that through initiating microfinance schemes, the Government can play the role of a motivator and find solutions to the burning issues. M. S. Sriram (2011), while explaining the growth and commercial implementation of microfinance in India, concluded that microfinance is focused on poverty reduction and

looking at intervention that would benefit the poor. Muhammad Arifujjaman Khan, et al. (2013) found that there are positive impacts of microfinance in the enhancing living standards of the poor, social empowerment and poverty alleviation. Jonathan Morduch (2014) also suggests that microfinance initiatives contribute to the positive social impacts. Zohra B, et al. (2014) emphasizes the role of microfinance in poverty alleviation and development of the poor section of the society. Rejani Sinha (2014) focused on the future potential of microfinance initiatives in India and explained that currently microfinance contributes to the development of rural India both in agricultural and industrial sector. Maruth Rramprasad et al. (2015) suggest that poverty alleviation and financial inclusion can be achieved through effectively organized microfinance sector. Rashmi Barua, et al. (2015) shows that the financial education through microfinance institutions helps the socially backward classes to overcome the disadvantages of being financially illiterate. Munish Kapilo, et al. (2015) pointed out that credit facilities offered by microfinance are helpful in poverty reduction by generating income through the employment opportunities. Harbhan Singh, et al. (2015) provides that microfinance has a significant impact on micro Entrepreneurship and social capital generation. Sentamil Raja, et al. (2015) expect that the use of new technologies and inventions in microfinance may be helpful in creation of opportunities for expanding access to many financial services, especially in rural areas. Bankim Chandra Ghosh (2015) suggests that there is progress in India after the introduction of microfinance initiatives. Manish Kumar, et al. (2015) suggests that microfinance as one of the main methods that can be used for poverty alleviation in the rural India. It was found that there is high growth potential for microfinance initiatives in India. Annies Chaudhary (2015) assesses that the loans and other schemes offered by MFIs to poor help in the poverty eradication and increase the savings habit. Priyanka, et al. (2015) suggests that microfinance is the major tool that can be used for the purpose of alleviating poverty. It is also noted that the SHGs can play a major role in it. Satyajit Roy (2015) is of the opinion that the concept of microfinance is still new-fangled to India. There is a huge growth potential for MFIs in India as there are many economic and noneconomic factors that contribute to the escalation of the sector.

The available studies focus on social and economic development promoted by microfinance initiatives. No significant studies are found on the financial literacy and resulting economic empowerment of rural women in Kerala. Therefore, the research gap of the current study is identified as to study the role of microfinance units in Kerala in augmenting financial literacy and economic empowerment of rural woman. Previous researches on financial literacy prove that it leads to financial and social inclusion and causes the development of backward communities. The studies on microfinance initiatives provide that they contribute to poverty alleviation and the development of the backward community by ensuring employment opportunities, income generation and sustainable development in the areas. Understanding of financial products is imperative in ensuring access to finance. Financial literacy is considered an important determinant of access to finance. The literacy can also be ensured by making financial products available. The microfinance initiatives have developed a variety of financial products and services. The general trend is that the microfinance entities contribute to the financial well being of the serving community and studies show that it enhances the access to various financial products and services. The current study focuses on the influence of microfinance initiatives in enhancement of financial literacy among rural women. In focus of the special circumstances of Kerala, and especially of Idukki district, even though there are different microfinance initiatives operational among the people, the Kudumbasree has been identified as of considerable significance and the study is concentrated on the their contribution in augmenting the financial literacy of rural women in Idukki. The district is noted for its agricultural background and the gigantic majority of women are members of Kudumbasree units. Different aspects of financial literacy including banking literacy and investment literacy are focused here. The role of MFIs in increasing the economic empowerment of women, viz. the enhancement of financial status and participation in economic decision of family is also studied. Thus it shows the relationship between microfinance initiatives and financial literacy of rural women.

OBJECTIVES

The main objective for the study is:

- To analyze the level of financial literacy of rural women in Idukki District of Kerala, before and after joining microfinance units.

- To analyze the role of microfinance initiatives in economic empowerment of rural women in Idukki District of Kerala.

HYPOTHESES

The following null hypotheses were set on the basis of the objectives.

- H_{0_1} : There is no significant difference between the awareness about banking products among rural women before and after joining microfinance units.
- H_{0_2} : There is no significant difference between the savings habit among rural women before and after joining microfinance units.
- H_{0_3} : There is no significant difference between the level of savings among rural women before and after joining microfinance units.
- H_{0_4} : There is no significant economic empowerment for rural women caused by microfinance initiatives.

DATA AND METHODOLOGY

The research was aimed at identifying different aspects of financial literacy such as banking and investment literacy of rural women and to identify on the role of MFIs in economic empowerment of women. Primary data were collected using a structured questionnaire from fifty Kudumbasree units selected from Idukki District and three hundred responses were collected. The Kudumbasree units were selected, as they were the most common microfinance initiatives working among rural women in Kerala. It is run with the support of the State Government of Kerala and the local governments of the region watch over the activities of the same. The whole study was conducted during six months from October 2015 to March 2016.

RESULTS

The respondents of the survey were members of the microfinance units in Idukki District of Kerala and it was found that all of them were having a bank account and among them 66.7% were aware about the different types of bank account. It was found that most of the respondents were workers under Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). It was found that, apart from the transactions with regard to the wages of MGNREGA scheme, all of them make banking transactions. 67% of the rural women are familiar with the cheque system of payments. 76% of them were having at least one loan from banks. The key credit availed by them were housing loan.

Table No.1 Summary Statistics of Wilcoxon Signed Rank test

H0. No	Null Hypotheses		N	Mean Rank	Sum of Ranks	Asymptotic Significance (2-tailed)
H01	There is no significant difference between the awareness about banking products among rural women before and after joining microfinance units.	Negative Ranks	16	71.5	1144	0.000
		Positive Ranks	158	89.12	14081	
		Ties	126	-	-	
H02	There is no significant difference between the savings habit among rural women before and after joining microfinance units.	Negative Ranks	39	87	3393	0.000
		Positive Ranks	204	128.69	26253	
		Ties	57	-	-	
H03	There is no significant difference between the level of savings among rural women before and after joining microfinance units.	Negative Ranks	43	43	1849	0.000
		Positive Ranks	204	273	55693	
		Ties	53	-	-	

The role of microfinance in enhancing the financial literacy of women is proved by testing three hypotheses. The variables considered for testing were awareness about banking products among women before and after joining microfinance units, savings habit among women before and after joining microfinance units and the level of savings among women before and after joining microfinance units.

With regard to the first null hypothesis, there are 16 negative ranks, 158 positive ranks and 126 ties for the variable 'the awareness about banking products'. The mean of the negative ranks is 71.50 and the mean of positive ranks is 89.12. The sum of ranks also shows an increase from 1144 to 14081. The Wilcoxon Signed Rank test was run at 5% significance level and the P value of the test is 0.000 which rejects the null hypothesis. This shows that there is an increase in the awareness level of rural women about the banking products after joining microfinance initiatives. In order to continue testing the role of MFIs in augmenting the financial literacy, the second null hypothesis was formed on the basis of the difference in the savings habit of rural women after joining the initiatives. There are 39 negative ranks, 204 positive ranks and 57 ties for the variable 'the savings habit'. The mean of the negative ranks is 87.00 and the mean of positive ranks is 128.69. The sum of ranks also shows an increase from 3393 to 26253. The Wilcoxon Signed Rank test run at 5% significance level shows that the P value of the test is 0.000 which rejects the null hypothesis. This results show that there is a raise in the savings habit of rural women after joining microfinance

units. As subsequent query is about the level of savings, the third null hypothesis was formed on the basis of the difference between the level of savings among rural women before and after joining microfinance units. There are 43 negative ranks, 204 positive ranks and 53 ties for the variable 'the level of savings'. The mean of the negative ranks is 43.00 and the mean of positive ranks is 273.00. The sum of ranks also shows an increase from 1849 to 55692. The Wilcoxon Signed Rank test run at 5% significance level shows that the P value of the test is 0.000 which rejects the null hypothesis. This results show that there is high augmentation in the level of savings of rural women after joining microfinance units. When the test was rerun to know the improvement in the level of savings those who were having savings before joining hands with microfinance initiatives, the P value became 0.209 which amounted to acceptance of the null hypothesis that there is no significant improvement in the level of savings. Finally, it can be understood that MFIs play an important role in the augmentation of financial literacy of rural women.

For analyzing the economic empowerment of rural women caused by microfinance initiatives, responses were collected over nine variables on a five point likert scale which ranged from strongly agree (point five) to strongly disagree (point one) and each of the variables singly and jointly tested using one sample t-test. The test value assigned for the test was 4, as it is a one tail test to check the presence of economic empowerment (In the likert scale, point 4 represents

agree). The questions were arranged so as to get the perception of the respondents on how microfinance initiatives improved their attitudes and skills. The test was run at 95% level of confidence.

Table No.2 Summary Statistics of One Sample t-test

Variables Related to Economic Empowerment	Mean	Std. Deviation	Std. Error Mean	t	Asymptotic Significance	Mean Difference
Panel A: Individual Variables						
Confident Investment Decisions	4.27	0.557	.032	8.297	0.000	0.267
Increased Investment Habit	4.32	0.529	.031	10.589	0.000	0.323
Increased Social Relationship	4.26	0.561	.032	8.126	0.000	0.263
Independent Financial Decisions	4.28	0.596	.034	8.047	0.000	0.277
Personal Budgeting	4.03	0.857	.049	0.674	0.501	0.033
Awareness on Risk and Return	4.22	0.616	.036	6.185	0.000	0.220
Support in Family Financial Decisions	3.81	0.924	.053	-3.497	0.001	-0.187
Financial Readability	4.21	0.481	.028	7.441	0.000	0.207
Changed Risk Perception	4.10	0.746	.043	2.246	0.025	0.097
Panel B: Overall						
Economic Empowerment of Rural Women	4.17	0.462	.026	6.243	0.000	0.167

Panel A of Table 2 gives the results of one sample t-test for each variables. Except in case of personal budgeting, the null hypothesis that there is no empowerment caused by microfinance initiatives was rejected as the P values are less than 0.05, the level of significance. The same test, run on a computed variable representing all the responses, shown in Panel B of Table 2, the null hypothesis is rejected. Therefore, it is evidently proved that the sample belongs to a population which proposes that joining hands with a microfinance initiative causes enhanced economic empowerment for rural women. 94.3% of the respondents say that their confidence in taking investment decisions has increased. 97.0% of them are of the feel that MFIs caused increase in their investment habits. 94.0% opines that MFIs play a vital role in increasing the social relationship of rural women. 92.3% of the respondents feel that they have the ability to make financial decisions themselves and enhanced financial status. 84.0% of the rural women prepare personal budgets. The risk and return relationship of investment is noted by 89.7% of the respondents. 83.7% of the rural women participate in family financial decision making after they joined microfinance units. 96.7% of the respondents claim that they have the good financial readability after joining MFIs. There is a positive change in risk perception of 88.7% of the rural women after joining MFIs, which

motivate them to take the investment and financial decision alone.

SUGGESTIONS

The study points out some shortcomings of the microfinance units in the area and suggests the following. The microfinance units can organize classes to discuss about the modern banking products such as ATM card, credit card, internet banking and mobile banking. Initiatives are to be taken to organize training programmes for financial literacy and investment awareness. Augmentation of social relationship of the members also should be one of the objectives of the training programmes. The local government bodies have to release adequate funds to the microfinance initiatives and should encourage the units to take up training programmes as well as innovative projects.

CONCLUSION

The modern technological sphere of life requires literacy on financial matters including bank accounts, investments and financial planning, where banking transactions often come as part of daily routine. The enhanced financial literacy and economic empowerment of rural women in Idukki District owes to the microfinance schemes introduced to make them more self reliant and financially self disciplined. The study reveals that the microfinance initiatives contributed to the perception and life style changes of rural women to

a great extent. The government has to do more in the arena with financial and technical support to the microfinance entities to provide more literacy related education to the members, especially to the rural women, as the study shows that even though there are enhanced financial literacy and economic empowerment, it has not yet reached its saturation.

REFERENCES

1. Agarwalla, S. K., Barua, S. K., Jacob, J., & Varma, J. R. (2015). *Financial literacy among working young in urban India. Arth Prabandh : A Journal of Economics and Management (APJEM)*, 34-52.
2. B, Z., & Pandey, S. D. (2014). *Comparison of the performance of microfinance institution with commercial banks in India. World development*, 312-322.
3. Barua, R., & Sane, R. (2015). *Repayment in Micro Finance: The Role of Financial Literacy and Caste. Economic Affairs*, 65-82.
4. Bera, S. K. (2011). *A Study of SHG Microfinance Initiatives in Purbo Midnapore District of West Bengal. Economic Affairs*, 107-116.
5. Chaudhary, A. (2015). *Microfinance as a Poverty Reduction Too I- A Critical Assessment. Economic Affairs*, 115-128.
6. Custers, A. (2011). *Furthering Literacy Experimental Evidence From a Financial Literacy Program For Microfinance Client In Bhopal, India. Economic Affairs*, 118-126.
7. Drexler, A., Fisches, G., & Schoar, A. (2014). *Keeping It Simple: Financial Literacy and Rules Of Thumb. Economic Affairs*, 54-62.
8. Gale, W. G., & Levine, R. (2015). *Financial Literacy: What Works? How Cold It Be More Effective. World Development*, 66-83.
9. Ghosh, B. C. (2015). *A Review of Microfinance in India. IJRESS*, 150-157.
10. Hans, V. B. (2009). *Innovations in Microfinance - looking beyond income and poverty. International Journal of Advanced Research in Management and Social Sciences (IJARMSS)*, 13-19.
11. Kapilo, M., Singla, A., & Guptha, M. L. (2015). *Role of Micro Finance in Generating Income and Employment for Rural Households in Punjab- an Econometric Approach. Indian J Econ Dev*, 481-487.
12. Khan, M. A., & Rehman, M. A. (2013). *Impact of microfinance on living standards, empowerment and poverty alleviation of poor people: a case study on microfinance in the Chittagong industry of Bangladesh. International Journal of Business Quantitative Economics and Applied Management Research (IJBEMR)*, 165-175.
13. Kumar, M., Bohra, N. S., & Jhons, A. (2015). *Microfinance as an Antipoverty Vaccine for Rural India. APJEM*, 167-183.
14. Mason, C. L., & Wilson, R. M. (2000). *Conceptualising financial literacy. Loughborough University Business School Research Series*, 141-146.
15. Maurya, R. (2011). *Algebra of microfinance: Policy perspective. International Journal of Business Quantitative Economics and Applied Management Research (IJBEMR)*, 165-171.
16. Morduch, J. (2014). *The Microfinance Schism. World Development*, 617-629.
17. Priyanka, Varma, R., & Meena. (2015). *Microfinance in India. Economic Affairs*, 77-89.
18. Raja, A. S., Muthumaran, T., & Palanichamy, P. (2015). *Microfinance and Technology: Issues and Impact. Indian Journals*, 133-137.
19. Ramakrishnan, R. (2013). *Financial Literacy - The Demand Of Financial Inclusion. Economic Affairs*, 18-26.
20. Roy, S. (2015). *Microfinance in India: An Overview of Microfinance and SWOT Analysis. Economic Affairs*, 100-108.
21. Rramprasad, M., & Kasthuri, R. (2015). *Indian Micro finance Sector in the new millennium; Developments and concern. International Journal of Advanced Research in Management and Social Science*, 200-212.
22. Singh, H., & Atria, A. K. (2015). *Social Capital Formation and Growth of Micro Entrepreneurship through Microfinance: A Study of Women Self Help Groups in Rajasthan. Asian Journal of Management*, 91-100.
23. Sinha, R. (2014). *Microfinance a critical analysis of rural India. Asian Journal of Management*, 122-136.
24. Sriram, M. (2011). *Commercialization of microfinance in India. A decision on the Emperors Appeal. International Journal of Business Quantitative Economics and Applied Management Research (IJBEMR)*, 143-160.