



FINANCIAL INCLUSION & SOCIAL CAPITAL: A CASE STUDY OF SGSY BENEFICIARIES IN KASHMIR VALLEY

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Submission: 13/01/2016

Revision: 11/02/2016

Accept: 12/05/2016

ABSTRACT

The interaction between economic dimensions and socio-political dimensions of poverty are believed to be interlocked with a continuous interaction among each other. These interactions are believed to manifest in an intertwined relationship; and thus remain at the centre of policy making throughout the developed world. Access to economic resources (Financial Inclusion) is believed to encourage micro entrepreneur to take on profitable activities which in turn provide an enabling environment for him/her to gather access to social networks which may be beneficial to him in terms of access to raw material, marketing support and business ties. Whereas financial inclusion is believed to have a positive impact on social capital, the reverse is also true; the amount and quality of social capital provides a micro-entrepreneur with easy access to diverse sources of finance. Microfinance Institutions around the world heavily rely on group financing mechanism by leveraging on social collateral as a replacement to financial collateral in financing micro-entrepreneurs. The present study is an attempt in this direction to understand the relationship between financial inclusion and social capital.



The study attempts to evaluate the impact of access to finance on socio-political empowerment of the beneficiaries of *Swarnjayanti Gram Swarozgar Yojana* (SGSY), now known as National Rural Livelihood Mission (NRLM). Results indicate that access to finance has a positive impact on almost all the socio-political indicators of empowerment, the impact being relatively lesser for financial literacy and economic awareness.

Keywords: Financial Inclusion, Social Capital, Microfinance, Poverty Alleviation.

1. INTRODUCTION

Broadly Social Capital can be defined as the norms and networks facilitating collective actions for mutual benefits (WOOLCOCK, 1998, p 155). Bennet Lynn (1997) defines social capital as 'those features of social organisation such as networks, norms and trust that facilitates coordination and cooperation for mutual benefit' He further defines networks as 'local clubs, temple associations, work groups and other forms of associations beyond the family and kinship groups.

Social capital is context dependent and takes many different forms, forming a complex web of interaction and communications (FUKUYAMA, 1995; FUKUYAMA, 1999; LIN, 1999B; PUTNAM, 1993; WHITE, 2002), including obligations (within a group), trust, intergenerational closure, norms, and sanctions with underlying assumption that the relationships between individuals are durable and subjectively felt (BOURDIEU, 1983).

Social capital can be understood at three basic levels; Country Level, Community Level, and at Individual Level. At a country level, social capital refers to the degree of trust in Government & other societal institutions (FUKUYAMA, 1995), which in other words include the participation in the civil institutions and conformity to the legal and civil norms of the administration.

At a community level, social capital comprises of 'neighbourhood networks' (JACOBS, 1961), features of social life – networks, norms and trust (PUTNAM, 1993) that enable an individual to pursue collective goals with a collective effort. And at an individual level, social capital refers to individual

characteristics like; charisma, status, individual interactions and access to networks (GLEASAR et.al., 2000).

It is generally believed that social capital is positively associated with economic progress. Through linkages at various levels, wider social and economic impacts can occur through the labour market, the capital market, the social capital at various levels, and through clients' participation in social and political processes (MCGREGOR et al., 2000).

Microfinance has been found to reduce Putnam effects; Rafael and Gomez (2001) establish a microeconomic foundation for the effect of social capital on improved economic performance. Small-scale self employment which is synonymous with micro entrepreneur is a group of low income self-employed people with fewer resources at disposal and lesser assets to offer as collateral. Microfinance heavily relies on group formation for financing micro-entrepreneurs by leveraging their social capital as collateral by replacing financial collateral.

This social association between these groups acts as social collateral (GOLDMARK, 2001) suggesting methods which work through social enforcement of maintaining reputation and social standing within the community making group mechanisms more secure leading to high repayment rates (WOOLCOCK, 2001; GOMEZ; SANTOR, 2001).

Results establish that Social Capital has a positive implication for microfinance institution that rely heavy on the idea that individual social capital can overcome a borrowers lack of financial collateral. Lack of sufficient social capital and interconnectedness in the population, especially in the form of lack of cooperation among businesses and among support organisations, is believed to obstruct the successful provisioning of microfinance services (LASHLEY, 2002).

The role of Promoting agencies in group formation and mobilisation involves social intermediation which in turns leads to the creation of social capital (SRINIVASAN, 2000).



With an aim to understanding the dynamics of financial inclusion and its interaction with social capital in Kashmir valley, a study on the participants of *Swarnjayanti Gram Swarozgar Yojana* (SGSY), now known as National Rural Livelihood Mission (NRLM) has been undertaken in the valley of Kashmir.

Kashmir has by far been ignored by the researchers in the field and in order to fill this gap, present study has been undertaken to make a modest contribution to what little is already known about the dynamics of financial inclusion in the Valley.

The paper is divided into 5 sections; section 1 presents a brief background and understanding of social capital and its interaction with access to finance, besides objectives of the study. Section 2 evaluates the existing literature for any evidences on the relationship between financial inclusion and social capital. Section 3 presents the research methodology adopted, the sampling design, tools of measurement and analysis and sample characteristics. Section 4 presents the results of the study and section 5 populates the summary, limitations of the study, suggestions and directions for future research.

The objectives of the study are outlined below:

- a) To examine the existing literature for the dynamics and nature of the relationship between financial inclusion and social capital.
- b) To evaluate the impact of access to finance (credit) on the socio-political empowerment of the participants of SGSY Scheme in Kashmir.
- c) To suggest on the basis of study results, measures to improve the effectiveness of financial inclusion on the social capital of participants.

2. LITERATURE REVIEW

Social Capital and Access to Finances, both from formal or informal sources, interact at various levels and manifest through various intertwined relationships. While social capital in different forms and at various levels substantially increases the provision for and access to financial services and

economic empowerment, access to finance also impacts social capital at various levels. Not only provision for financial services, social capital has in also been found to improve the impact of financial access on micro-entrepreneurs through various economic and social processes and vice versa.

Sanders and Nee (1996) explains the positive effect of social capital (social relations) on a micro-entrepreneur through Instrumental Support, Productive Information and Psychological Aid. *Instrumental support* in the form of start-up support through non-interest bearing capital usually by friends and family can directly affect the performance of a micro-entrepreneur.

Social Capital can help in improving the earnings of a micro-entrepreneur through *productive information* dissemination; this information may be in the form of advertising through the word of mouth, providing valuable leads and customer referrals (HOLZER, 1987), information about trusted suppliers and competitors which can improve the productivity.

What is more important for a micro-entrepreneur to keep him going about his venture is the motivation; social capital can be an effective *psychological aid* which prevents a micro-entrepreneur from liquidation and dissolution during the times of emotional stress.

Darity and Goldsmith (1995) demonstrate a positive relationship between psychological well-being and individual productivity, the results indicate that individuals lacking strong social networks are more prone to depression and suffer more during unemployment spells and distress. It is thus believed that the social capital at whatever level and in whatever form leads to an increase in the productivity and decrease in vulnerability of a micro-entrepreneur.

A very important component of social capital is 'neighbourhood effects', which may be defined as the characteristics other than personal (the community level characteristics) that can affect the individuals' economic outcome (GOMEZ; SANTOR, 2001), often referred to as spillovers in the

microfinance literature. Since spillovers can be in the form of inflow or the outflow, here spillover inflow is specifically being referred to.

The neighbourhood characteristics affect the participants either directly or indirectly by generating the demand or through facilitation (GOMEZ; SANTOR, 2001). Neighbourhood effects may be helpful in various ways by creating a spillover effect due to integration and interaction, by sharing complimentary products, skills and resources (GOMEZ; SANTOR, 2001), and thus greater commercial concentration and integration generate larger demand for the products & services of a micro-entrepreneur (CICCONE; HALL, 1996).

Socio-economic neighbourhood characteristics may lead to spillovers which can be positive or negative. Generally favourable neighbourhood characteristics encourage investment in civic amenities as well as helps in reducing outward mobility (DIPASQUALE; GLAESER, 1999). Besides community level social capital, there are other factors which pertain to individual characteristics of these entrepreneurs, the individual level social capital, which exists in the form of individual heterogeneity can also be a reason of success or failure (GOMEZ; SANTOR, 2001).

It is not just that Social Capital increases efficiency of microenterprises but the reverse is also true; the interaction between these groups amongst themselves and within their community can create co-operation and trust which not only facilitates their activities but the benefits extend beyond the group level by virtue of a spill-over effect directed outwards giving an impetus to social capital development in their communities (ZOHIR; MOTIN, 2004).

The development of social capital at community level takes place through diffusion of development impact across community. Grameen women have been found to be more active with an emphasis on productive role of women rather than just the reproductive role; this norm has been found to be picked up by the non-Grameen women and also due to the socio-political activism of Grameen women outside their solidarity groups (KABEER, 2003).

Further microfinance services even if they are slightly misdirected are believed to reduce poverty; microfinance services provided to non-poor have been found to reduce poverty by providing labour opportunity to the poor as employees of micro entrepreneurs (MOSLEY; ROCK, 2004). It has also been argued that microfinance may affect poverty even without affecting the borrower's income, either by relatively easier & cheaper credit, or by stimulating economic activities and development of social capital (MOSLEY, 2001; ZOHIR; MOTIN, 2004).

The results even though not encouraging to a welfarist mind reveal an important dimension of microfinance programmes – the creation of social capital; the microfinance services have been found to increase spending on education on healthcare which may extend beyond the programme participants. Microfinance through creation of social capital has been found to reduce migrations by increased employment opportunities, development of demand for the products and increased income (ZOHIR; MATIN, 2004, MAKINA; MALABOLA, 2004).

Theoretically the field of finance has been abuzz with a generalisation that access to finance improves particularly the welfare of poor and excluded sections by allowing them to take on the opportunities which in absence of financial support would have to be forgone by the poor.

Rogaly (1996) refers to such uncontested generalisation in the microfinance literature as 'Microfinance Evangelism', which necessarily assumes that poor immediately and invariably benefit from access to finance. Nevertheless sufficient evidence is available in the literature about the positive association between microfinance and economic empowerment, impact of financial access on socio-political empowerment is also well documented in the microfinance literature.

Microfinance tries to improve double bottom line – financial as well as social, while as conventional financial system caters to improve just the financial bottom line. The ability to take various opportunities is believed to

exhibit a positive association with socio-cultural and economic variables of the participants. Academic circles are abuzz with the generalisation that access to finance has a direct and positive impact on the socio-economic condition of the beneficiaries/participants (WEISS; MONTGOMERY, 2005; MKNELLY; DUNFORD, 1999; PITT; KHANDKER, 1998; KHANDKER, 1998; AMIN et al., 1995; PITT et al., 2003; KHANDKER, 2003, GANESAN; SASIKALA, 2010, FREDRICK; KALAICHELVI, 2010).

In their study conducted in Ghana, Cheston and Khun (2002) found that microfinance has led to a positive development in self confidence, self-esteem, participation, bargaining & negotiating power and decision making of the participants. In order to study the relationship between social capital and economic empowerment, in their study on 612 group borrowers and 52 individual borrowers of Calmeadow Metrofund, Gomez and Santor (2001) found a positive association between neighbourhood effects and earnings.

In a society dominated by male, particularly in developing economies, women find it hard to engage themselves in social, economical and political process. Taking into consideration the increased marginal returns on financial inclusion of women, microfinance has always had a feminist orientation for so many reasons.

Most of the studies in the field of microfinance have thus been undertaken to understand the socio-economic impact of access to finance on women. Microfinance can be considered as a powerful tool in improving the socio-economic status of participants more particularly of women participants (HERME; LENSINK, 2007).

Several other studies evidence that participation in a microfinance program exerts significant impact on various aspects of women empowerment, and other social variables (SCHULER; HASHEMI, 1994; HASHEMI et al., 1996; STEELE et al., 2001; HASHEMI; RILEY, 1996; SCHULER et al., 1998; SARAVANAN; DEO, 2010, MAKINA; MALABOLA, 2004).

Lyngdoh and Pan (2011) reveal a significant relationship between financial inclusion and economic transformation of women; access to finance has been found to exert a positive impact on social outcomes, political participation, decision making and inclusive growth also.

Theory suggests that a larger control over resources by women can enhance human capital of children. Working on BIDS Survey Data, Pitt et al. (2003) shows that an increase of 10 percent in credit to women causes an increase of 6.3 percent in the arm circumference of daughters and an annual increase of 0.36 cm and 0.50 cm in the height of girls and boys respectively.

The other latent variables that show a positive relationship with access to finance are; decision about implementation of household borrowings, power to oversee and conduct major household transactions, family planning, fertility control, contraceptive use, and parental issues (AMIN et al., 1995; PITT et al., 2006).

Microfinance to women has also a significant and positive relationship with women's autonomy with purchasing, women's awareness and activism & some little impact on household attitudes. Contrary to that credit flowing to men has been found to have a net negative impact on all the variables mentioned above (PITT et al., 2006). In order to study the relationship between microfinance & empowerment, Pitt et al. (2006) also employed the same data set from BIDS Survey.

Results suggest that participation in the program has a significant and positive impact on women empowerment. While as credit flowing to women has been found to be positively associated with women empowerment (AMIN et al., 1995), the credit going to men has been found to create an opposite or negative impact on women empowerment; under the condition that only one person is eligible to participate in a program (PITT et al., 2006). Access to finance and participation in a program leads to a positive impact on average annual household income (33614 tk against 18686 tk for non-participant), education of parents (3.25 for participants vs. 1.95 for non-participants),

mortality of children, contraceptive use (61.4% for participants and 38.6% for non-participants), family planning, decision making, household participation, bargaining power and social mobility (AMIN et al., 1995).

Membership has also been found to increase mobility, authority, and aspiration; other parameters like – times loan received, etc were also found to have a positive impact on mobility, authority, and aspiration.

In their study for assessing the impact of participating in SHG activities across India, NCAER suggests a positive impact of programme participation on net household income, asset holdings, self confidence, innovation, participation and respect. Another NCAER (National Council for Applied Economic Research) study by Shukla et al. (2011) indicates that microfinance activities have led to increased savings, increase in productive activities (Jose et al, 2009), financial literacy, and increase in the living standard of participants in India. Studies have generally shown that microfinance have had a positive association with various socio-economic parameters of participants, particularly children education, nutritional status and empowerment (JOHNSON; ROGALY, 1997).

From whatever little research that has been conducted in order to assess the relationship between microfinance and health and education, it has been found that microfinance interventions tend to improve education, healthcare and hygiene, and nutritional indicators of the participants and also at places where MFI are present, specifically due to the positive outward spillovers (WRIGHT, 2000; LITTLEFIELD; MORDUCH; HASHEMI, 2003).

Robinson (2001) found that globally microfinance leads to enhancement in the standard of living, quality of life, self confidence and also in the diversification of livelihood strategies and thereby increasing their income. Similar relationship is indicated by Kotishwar and Khan (2010); results indicate that microfinance activities have significantly improved the quality of life including the standard of living of participants.

Pahazhendi and Badatya (2002) found that there exist a significant positive relationship between NABARD's SHG – Bank Linkage Programme and socio-economic conditions of the participants. Empirical evidence suggests that the programme membership has lead to a perceptible and wholesome change in the living standards of SHG members in terms of ownership of assets, increase in savings, borrowing capacity, income generating activities and income levels (KHAKI; SANGMI, 2012; PAHAZHENDI; SATYASAI, 2000, HEPHZIBAH; SELVI, 2011; DUNN et al., 2001; BARNES, 2001).

Evidence also suggest that membership has lead to an increase in the healthcare, food and education spending along other expenditures (NEPONEN, 2003; SRINIVASAN; KUPPUSAMY, 2010; MKNELLY; DUNFORD, 1998, 1999; PITT et al., 2003).

Pitt et al. (2003) however found that the impact on children's health is significant for female borrowings while as the same is missing for male borrowers and even negative in some cases. Noponen (2005) shows that the programme specifically for rural women clients in Tamil Nadu, India, has a positive impact on livelihood, social status and other socio-political indicators of their clients which is more likely to increase as they spend much time with the programme. The study further shows that the clients have seen an increase in the ownership of assets.

3. RESEARCH METHODOLOGY

Microfinance primarily aims at empowerment and poverty alleviation, and in order to know the success or failure of a programme MFIs often go for studying the impact. It is however argued that it is difficult to attribute to microfinance development the broad range of developmental effects given the complexities in assessing the impact that can directly be attributed to the interventions (WEISS; MONTGOMERY, 2005).

In the recent times, in order to assess the impact of microfinance various tools have been developed over time. One of these widely used tools

in longitudinal studies is available from Assessing the Impact of Microfinance Services (AIMS) Project. This approach identifies impact as;

$$\text{Impact} = \frac{1}{n} \sum (y_{t+1} - y_t)_p \quad (1)$$

Where y_t and y_{t+1} are the identified impact variable at times t & $t+1$ respectively, and p signifies the matching of borrowers and non-borrowers. This approach is slightly weak for application owing to the difficulties in matching borrowers and non-borrowers. The present study has adopted a basic AIMS tool for impact assessment with a slight adjustment with regard to the control group.

Whereas non-borrowers are generally being used in the toolkit, here the impact variable has been studied for the same stock of beneficiaries of the scheme before the program and after the program. This methodology for impact assessment has been used by National Council for Applied Economic Research (NCAER) in majority of its impact assessment studies. The present study tries to understand the impact of access to finance and particularly provision for credit to the beneficiaries of *Swarnjayanti Gram Swarozgar Yojana* (SGSY) now restructured into National Rural Livelihood Mission (NRLM).

3.1. Database

Data has been drawn from primary sources through a well structured interview schedule. Detailed and in-depth interviews and informal discussion have been conducted to collect the required data as per the interview schedule from the beneficiaries of SGSY Scheme.

Due to time and resource limitations, the study has been conducted in the Kashmir Division of the State of Jammu and Kashmir, India and as such the beneficiaries of the Scheme from Kashmir Division only have been studied. Besides, secondary data has been collected from the Nodal Offices and Programme Offices of Directorate of Rural Development (Kashmir) at District and Block Levels.

Further, discussions with the officials from top management to middle management of Banking functionaries, NABARD and other Government Institutions have been conducted to get an insight and pave a direction into the working of the Scheme in the Valley.

3.2. Sample Selection and Sampling Design

The study covers all the regions of Kashmir Valley; it has covered three districts, viz. Anantnag (Southern Region), Baramulla (Northern Region) and Srinagar (Central Region) which have been purposively selected in order to gather representation from all three regions.

A multistage mixed sampling design has been adopted for selecting sample SHGs and sample beneficiaries to be interviewed for the study. The number of SHGs criterion has been used for the selection of districts for sampling; however Srinagar has been selected ignoring the number of SHG criterion in order to enable inclusion of different neighbourhood settings. In Anantnag and Baramulla, four blocks have been selected from each District while as Srinagar comprised of just one block. Nine blocks in total have been selected from three districts with both Individual beneficiaries as well as Group beneficiaries.

The methodology for impact assessment of the beneficiaries at the household and individual levels is based on the information obtained from a primary sample survey. A well structured interview schedule has been used to collect the information on various socio-political parameters of sample members. In order to assess the impact of the program allocation, the 'pre and post' or 'before and after' approach has been followed. Relevant information has been collected as per the pre-structured interview schedule.

The responses have been collected on a recall basis with recall period of one year; responses have been collected in two rounds of interviewing with a 20 minutes pause between pre and post responses in order to avoid the bias that could have arisen due to remembering of earlier responses. The consistency of the responses was ascertained by using a question in a

different style to capture the same information. The interviews started with an informal chat and in case of SHGs by an informal group discussion, which was immediately followed by the formal interviews.

A complete list of SHGs and Individual *Swarozgaris* which have availed the facility/second grading during the last one year, was collected from the respective Program Officers of the chosen districts. The information was sorted blockwise and the 4 blocks from each district were chosen. The criterion for selection of the blocks was purely geographical/spatial where blocks have been chosen in such a way so as to cover all the geographical regions of the district, Srinagar however comprised of one block only where samples were chosen with geographical representation from all regions. From district Anantnag, blocks Shahabad, Dachnipora, Qaimoh and Shangus were chosen; similarly from district Baramulla, blocks Baramulla, Sopore, Pattan and Singpora were chosen; while as Srinagar comprised of just one single block.

Table 3.2.1: Sample Composition

Gender			Type		Total
			Individual Swarozgari	SHG Swarozgari	
Male	District	Srinagar	26	6	32
		Anantnag	24	1	25
		Baramulla	11	1	12
	Total		61	8	69
Female	District	Srinagar	2	58	60
		Anantnag	18	52	70
		Baramulla	3	69	72
	Total		23	179	202
Total	District	Srinagar	28	64	92
		Anantnag	42	53	95
		Baramulla	14	70	84
	Total		84	187	271

Source: Field Survey

A total of 271 effective respondents were selected from all three districts (See table 3.2.1); 187 group respondents and 84 Individual respondents, 69 male respondents and 202 female respondents. Out of 202 female respondents, 179 were group members and 23 were individual *Swarozgaris*;

and from a total of 69 male respondents, 8 are group beneficiaries while as 61 are individual beneficiaries.

A total of 92 respondents have been selected from district Srinagar, 64 group respondents and 28 individual respondents; a total of 95 respondents from district Anantnag with 53 and 42 group respondents and individual respondents respectively; and a total of 84 respondents from district Baramulla, 70 group respondents and 14 individual respondents. The sampling plan that has been followed at various levels is presented in the table 3.2.1 and 3.2.2.

Table 3.2.2: Blockwise Composition of Sample

District			Type		Total
			Individual	SHG	
Srinagar	Block	Srinagar	28	64	92
	Total		28	64	92
Anantnag	Block	Dachnipora	13	18	31
		Qaimoh	13	6	19
		Shahabad	5	20	25
		Shangus	11	9	20
	Total		42	53	95
Baramulla	Block	Baramulla	14	0	14
		Pattan	0	26	26
		Singpora	0	25	25
		Sopore	0	19	19
	Total		14	70	84

Source: Field Survey

3.3. Measurement Scale and Design of the Research Instrument

In order to capture the impact of access to finance on various socio-cultural variables, five dimensions, spread over 20 variables have been identified and put together in the form of a well structured questionnaire; the wider dimensions for impact assessment are Participation & Confidence, Problem Solving & Leadership, Bargaining & Negotiating Power, Health & Hygiene, and Financial awareness as shown in Table 3.3.2.

The given socio-cultural indicators have been measured on a scale usually used in psychometric analysis called Cantril's Self Anchoring Ladder. The Cantril Self-Anchoring Striving Scale (Cantril, 1965) has been included in several Gallup research initiatives, including Gallup's World Poll of more than 150 countries, representing more than 98% of the world's population, and Gallup's in-depth daily

poll of America's wellbeing (GALLUP-HEALTHWAYS WELL-BEING INDEX; HARTER; GURLEY, 2008; DIENER et al., 2009).

With most psychological or sociological scales, researchers will utilize Cantril Scale in ways they find empirically and conceptually appropriate. Besides, Cantril Scale has also been included in surveys, alongside a number of items, measuring many facets of wellbeing (i.e., law and order, food and shelter, work, economics, health, and daily experiences), which provides the opportunity to analyze how the Cantril Scale differentiates respondents in relationship to these other variable.

The ladder consists of 11 points and 10 steps from 0 to 10 where '0' means 'worst possible' and '10' means 'best possible'. The item queries respondents as to which step of the ladder they personally feel they stand at present and similarly the step of the ladder they feel they stood before participation to the program.

For the purpose of dimension reduction Principal Component Analysis has been used with a Varimax rotation and eigen values equal to or more than 1. Five factors were extracted with significant communalities ranging from 0.496 to 0.861 which indicates that a fair amount of variance has been extracted by the factor solution. The factors finally extracted have been named indicating various statements/variables grouped under the respective sets.

Thus five factors spread over 20 variables with a total explained variance of 65 percent have been named as: **Financial Awareness** (18.43% V.E.), **Problem Solving & Leadership** (16.40% V.E.), **Bargaining & Recognition** (14.73% V.E.), **Health & Hygiene** (9.53% V.E.), and **Participation & Confidence** (5.37% V.E.). Financial Awareness has the highest explained variance is the highest impact factor which suggests that social empowerment can substantially be improved through financial literacy.

The adequacy of the sample size was confirmed using both the Kaiser-Meyer Olkin (KMO) Sampling Adequacy Test and Bartlett's Test of Sphericity (BTS). KMO Values of 0.895 and a Chi-Square at 2390.58, ($P \leq 0.000$) indicate

that the correlation matrix is not an identity matrix, thus validating the suitability of factor analysis.

Exhibit 3.3.1: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.895
Bartlett's Test of Sphericity	Approx. Chi-Square	2390.587
	Df	190
	Sig.	.000

Exhibit 3.3.2: Factor Analysis – Dimension Reduction.

Factor/ Dimension	Element/Variable	Factor Loadings	Communalities	Initial Eigen Values	Rotated Eigen Values	Explained Variance
F1 Financial Awareness	Awareness about Financial Products	.702	.563	7.030	3.691	18.453
	Awareness about Govt. And Bank Schemes	.702	.602			
	Maintenance of Economic Affairs	.830	.782			
	Awareness about Bank Deposits	.775	.680			
	Awareness About Bank Advances	.764	.716			
	Awareness about Insurance Products	.694	.553			
F2 Problem Solving & Leadership	Handling Problems	.820	.739	2.352	3.281	16.405
	Decision Making	.678	.617			
	Leadership	.562	.648			
	Recognition	.575	.567			
F3 Bargaining & Recognition	Societal Recognition	.753	.658	1.456	2.946	14.730
	Membership Public Institutions	.719	.636			
	Negotiating Power	.831	.707			
F4 Health & Hygiene	Healthcare Expenditure	.760	.671	1.049	1.908	9.538
	Education Expenditure	.741	.861			
	Food Expenditure	.649	.636			
F5 Participation & Confidence	Gram Sabhi Participation	.490	.496	1.013	1.075	5.377
	Satisfaction in Life	.518	.569			
	Authority in Public matters	.483	.498			
	Participation in Public Meetings	.793	.701			

For the purpose of summarising, Gallup in its major research initiatives has formed three distinct groups and the same has been adopted for the current study:

- **Thriving (>7):** Well being that is strong, consistent and progressing with a positive outlook towards future.



- **Struggling (5-7):** Well being that is moderate, inconsistent and have relatively negative outlook towards future.
- **Suffering (<4):** Well being that is weak, high risk and highly negative outlook towards present as well as future life.

3.4. Sample Characteristics

The State of Jammu and Kashmir has 21.63% of its population living Below Poverty Line (Economic Survey 2007-08). Jammu and Kashmir has been found to lag behind all other states of the Northern Region with financial Exclusion to the extent of 67% (Report of the Committee on Financial Inclusion, 2008; Sangmi and Kamili, 2010).

NSSO data (59th Round) indicates that the proportion of non-indebted farmer households was most pronounced in Jammu and Kashmir (68.2%) in the Northern Region. The State has witnessed an absolute absence of complimentary institutions to support financial inclusion initiatives of various banking and non-banking entities; the State is also a victim of unequal participation by the banking fraternity (KHAKI; SANGMI, 2012).

The present study is concentrated on the Kashmir valley of the State only. The socio-economic profile of the districts under study is presented in the table 3.4.1 below.

Table 3.4.1: Development and Poverty Indicators of districts under study

District [^]	No. of SHGs formed since inception* (March 2012)	Poverty Ratio (October 2007)**	Contribution to NSDP at Current Prices (%)**	No of SSI Units** (2010-11)	Employment in SSI Units** (2010-11)	Bank Branches 2010-11 **
Srinagar	88	6.51	14.57***	10021	48403	151
Ganderbal	387	24.23		137	641	24
Budgam	1974	26.64	5.52	4121	27873	39
Anantnag	1131	14.46	11.04***	4312	18723	65
Kulgam	512	22.59		149	660	29
Pulwama	448	26.18	6.85***	2816	13307	37
Shopian	173	16.42		115	392	18
Baramulla	1153	26.49	11.17***	4184	17216	94
Bandipora	402	31.09		117	421	17
Kupwara	937	32.55	4.37	1812	6351	47

*Source: Directorate of Rural Development Kashmir (DRDK)

**Source: Directorate of Economics and Statistics, Government of Jammu and Kashmir
(As per the survey conducted by the Directorate)

*** Indicates figures of 2004-05 for the respective districts combined

^ District Leh and Kargil has been excluded from the study.

For the present study, a Sample of 3 districts out of a total of 14 districts has been taken, the general characteristics of which are presented in the table 3.4.2. The sample consists of a total of 271 beneficiaries from three districts chosen across from all the regions of the Valley – North, Centre and South. District Baramulla has been chosen from North, Anantnag from South and Srinagar from Centre.

The Sample consists of 92 respondents from Srinagar – 28 Individual Beneficiaries and 64 Group beneficiaries, 95 respondents from Anantnag – 42 and 53 Individual and Group Beneficiaries respectively, and 84 Respondents from Baramulla – 14 and 70 Individual and Group Beneficiaries respectively. Overall 84 Individual beneficiaries and 187 group beneficiaries which composed of 69 Male respondents and 202 female respondents have been selected. While as majority of male respondents were found to be independent beneficiaries (61 out of 69), female respondents were generally group beneficiaries (179 out of 202).

Table 3.4.2: Sample Characteristics.

Sample Characteristic	Frequency	Percentage	Sample Characteristic	Frequency	Percentage
Type					
Group	187	69.00	Male	8	
			Female	179	
Individual	84	31.00	Male	61	
			Female	23	
Total	271	100.00	Total		
			Male	69	25.46
			Female	202	74.54
District					
Srinagar	92	34.00	Individual	28	
			Group	64	
Anantnag	95	35.00	Individual	42	
			Group	53	
Baramulla	84	31.00	Individual	14	
			Group	70	
Total	271	100			
Activity Involved			Education		
Crewel	87	32.10	Illiterate	155	57.20
Sozni	80	29.52	Primary	21	7.75
Spinning and Knitting	35	12.92	Middle	55	20.30
Diary and LiveStock	34	12.55	Secondary	34	12.55

Vegetables	22	8.12	Graduates & Above	6	2.21
Other	13	4.80	Total	271	100.00
Total	271	100			
Family Composition			Occupation		
Nuclear <5 Members	94	34.69	Trading	42	15.50
Nuclear 5-10 Members	147	54.24	Agriculture	17	6.27
Joint 5-10 Members	10	3.69	Both Trade & Agriculture	168	61.99
Joint >10 Members	20	7.38	Daily Wagers	44	16.24
Total	271	100	Total	271	100

Source: Field Survey

3.5. Tools of Analysis

The data has been categorised, edited and arranged in a logical order. In the process certain errors were detected which have been corrected subsequently. Tabular analysis has been done both manually and using MS Excel and SPSS 20.0 version. Statistical tools like percentage, average and scaling techniques have been used.

In order to assess the impact of financial access on Socio-political profile of beneficiaries, same stock of beneficiaries have been taken at two time periods to draw the comparison between the pre- and post- scores using paired samples t-test.

4. RESULTS AND DISCUSSIONS

Traditionally Poverty has been understood to be the lack of access to basic facilities and sources of income, while as the present concept of Poverty has evolved to include numerous social and economic parameters. Poverty in the multidimensional context is interpreted as lack of assets or sources of income, powerlessness, lack of skill, vulnerability defencelessness and volatility in returns or income.

The determining assets may be human (capacity build up), natural, physical, social (social capital and networks), and financial (access to credit) (WORLD BANK, 2000, p 34). The lack of access to these enabling assets incapacitates an individual to take on profitable activities and thus leading to multiple deprivations.

Studies also reveal that multidimensional poverty can be reduced, as a long term strategy, by improvements in one dimension which would eventually

lead to a spill-over effect to the other dimensions and thus reduce vulnerabilities and deprivations (WRIGHT, 2000; LITTLEFIELD; MORDUCH; HASHEMI, 2003).

Many theorists believe that the most important component in multidimensional poverty mix is 'access to finance'; and the present study, in line with the notion, tries to assess the impact of financial inclusion on the socio-political empowerment of beneficiaries (NEPONEN, 2003; SRINIVASAN; KUPPUSAMY, 2010; MKNELLY; DUNFORD, 1998, 1999; PITT et al., 2003).

It has also been argued that microfinance may affect poverty even without affecting the borrower's income, either by relatively easier & cheaper credit, or by stimulating economic activities and development of social capital (MOSLEY, 2001; ZOHIR; MOTIN, 2004). Microfinance Programmes are believed to be an important force in the creation of social capital in deprived section of the society; the microfinance services have been found to increase spending on education on healthcare which may extend beyond the programme participants.

Microfinance through creation of social capital has even been found to reduce migrations by increased employment opportunities, development of demand for the products and increased income (ZOHIR; MATIN, 2004, MAKINA; MALABOLA, 2004).

The present study attempts to look for the impact of financial inclusion on the extent and direction of changes in the socio-cultural variables across various empowerment levels on Cantril's Ladder. The summarised results presented in the table 4.1 below clearly indicate that access to finance (credit) has a significant and positive impact on almost all the parameters of socio-political empowerment.

The classical concept of microfinance which lays its foundation on group formation and development of entrepreneurial skills lays emphasis on the development of social capital at community levels. As indicated in the table

below, financial inclusion has significantly increased the leadership ability, bargaining and negotiating ability and social interactions of beneficiaries; which are the most important determinants of success for a micro-entrepreneur.

The results further indicate that even though the impact is positive and significant on all dimensions, there are only a few variables where impact has been sufficient enough to upgrade the beneficiaries from one category of empowerment to the other.

Whereas participation in a microfinance programme enables beneficiaries to upgrade from 'struggling' status to 'striving' status in case of dimensions 'problem solving and leadership' and 'health and hygiene', it fails to make any such impact on other dimensions – 'participation & confidence', 'bargaining & recognition' and 'financial awareness'. The results, however, indicate that the reduction in the deprivations within each empowerment category is sub

Table 4.1: Socio-Political Impact of Financial Inclusion (Paired Sample Statistics)

Paired Sample Statistics					
Pair Description	Mean (Pre)	Mean (Post)	Mean Difference	t	P. Value
Gram Sabha Participation	.0111 ^a	.0111 ^a	--	--	--
Public Meetings	.3284	.8598	-.53137	-17.497	.000
Authority	.9151	1.2583	-.34317	-11.877	.000
Satisfaction	1.3690	1.7343	-.36531	-12.466	.000
Participation & Confidence	.6559	.9659	-.30996	-22.851	.000
Handle Problems	.7712	1.1734	-.40221	-13.478	.000
Taking Decisions	.8118	1.2251	-.41328	-13.586	.000
Leadership	.5830	1.1808	-.59779	-19.732	.000
Recognition	1.4428	1.8044	-.36162	-12.367	.000
Problem Solving & Leadership	.9022	1.3459	-.44373	-25.989	.000
Societal Recognition	.4760	1.0037	-.52768	-17.368	.000
Membership	.1328	.5904	-.45756	-15.092	.000
Negotiating Power	.2509	.8856	-.63469	-20.117	.000
Bargaining & Recognition	.2866	.8266	-.53998	-25.650	.000
Healthcare	.7528	1.0664	-.31365	-10.746	.000
Childcare	.5488	.8984	-.34959	-11.476	.000

Hygiene	.9852	1.2288	-.24354	-9.323	.000
Health & Hygiene	.7454	1.0369	-.29151	-16.335	.000
Awareness Financial Products	0.0000	.0221	-.02214	-2.472	.014
Awareness Government Schemes	0.0000	.0369	-.03690	-3.216	.001
Management of Economic Affairs	.0037	.0332	-.02952	-2.866	.004
Awareness Bank Deposits	0.0000	.0037	-.00369	-1.000	.318
Awareness Bank Advances	0.0000	.0037	-.00369	-1.000	.318
Insurance Awareness	.0000 ^a	.0000 ^a	--	--	--
Financial Awareness	.0006	.0258	-.02522	-2.767	.006

Source: Field Survey

Whereas financial literacy is considered a pressure point for the success of microfinance programmes, the results indicate that financial literacy is the lowest impact dimension with only 2 out of 6 variables implying a significant impact ($p=0.01$).

The participants have clearly not witnessed a large enough impact in their financial literacy to alleviate their disempowerment status; the participants continue to remain deprived on account of their financial awareness. Theory suggests that the inability of financial inclusion programmes to enhance the quality of financial and economic awareness hampers the progress of a microenterprise which may further lead borrowers to choose incorrect coping strategies at the time of distress or seasonal slack.

Social capital at all levels is an important in determining a successful coping strategy; any failure in either choosing a coping strategy or reaching a desired level of social capital may result in a downward spiral of deprivations. Results from the present study indicate that participants have substantially enhanced their social capital in terms of public interactions, bargaining and negotiating power, leadership qualities, membership in social and political organisations, problem solving, decision making, healthcare and hygiene.

The other impact variables like authority in public matters, satisfaction, and societal recognition have shown somewhat positive impact. The variable – ‘participation in Gram Sabha activities’ have not shown any improvements at

all, the discussion with the participants reveal that local political structure is practically missing in the valley.

Variables relating to financial literacy and economic awareness have not exhibited substantial impact, only 2 out of 6 variables pertaining to financial awareness are significant ($P=0.01$). The summarised results imply that financial inclusion has substantially improved the socio-political status of the participants, it may thus be concluded that financial inclusion leads to the creation of social capital.

5. CONCLUSIONS, SUGGESTIONS AND LIMITATIONS OF THE STUDY

The theoretical generalisations that access to finance leads to socio-political empowerment have not been rigorously researched. Very little research has been conducted in the Kashmir Valley in the field of Financial Inclusion and its impact, and in order to fill this gap, the present study is an attempt to contribute to what little is already known of the relationship between financial inclusion and the creation of social capital.

In order to achieve this objective, the present study has tried to assess the impact of credit on the socio-political status of the beneficiaries of *Swarnjayanti Gram Swarozgar Yojana* (SGSY), now known as National Rural Livelihood Mission (NRLM) in Kashmir. The results are consistent with a generally accepted notion that participation in financial inclusion programmes helps to increase the social capital of participants.

Financial inclusion enables participants to take a greater role in decision making, having greater access to financial and economic resources, building greater social networks, having greater bargaining and negotiating power, surviving shocks and having greater freedom and mobility.

The study has the following major limitations:

- a) The study has failed to account for the spillover effect; the measurement of spillover impact of programme on the non-participants or the spillover impact of other complementary programmes on the programme

participants/beneficiaries under observations has not been determined and/or adjusted for.

- b) The study has heavily relied on a methodology with inbuilt recall limitation in which same set of beneficiaries have been asked to recall their status as it was in absence of the programme support. Efforts have been made to avoid the bias arising out of remembering the responses by taking an adequate pause between the pre and post (present) responses but still the recall limitation can't be ruled out.

In view of the results arrived at, a few measures are suggested to increase the effectiveness of financial inclusion on the overall socio-economic development of the participants. An effective monitoring and pre-sponsorship appraisal may help in increasing the impact of these programmes. It has been widely seen that the participants of most of the microfinance programmes are non-poor households.

An effective targeting of poor and ultra poor household must be ensured in the implementation of these programmes. Effective and hassle free credit to entrepreneurial and ambitious groups of individuals may prove more than a handful in these programmes, by leveraging the group dynamics by way of sharing their social capital and networks.

Support assistance from NGO's and Trade Federations in terms of marketing and logistic support must be arranged to form a symbiotic and a win-win proposition for both the parties. *Melas*, Expos and Financial Literacy Camps should be organised to boost the morale of these micro-entrepreneurs while also providing them a networking opportunity to increase their business activity through such events.

Further, researchers must take up financial inclusion as a serious subject for study in the area. There is also a need to follow the participants for longer durations with close monitoring to get a better insight about the relationship between various socio-economic dimensions of poverty and financial inclusion.

Note: The Research has been carried between April, 2014 to December, 2014.

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