



## Impact of Microfinance in the Services of Rural Development with Specific Reference to Downtrodden People at Virudhachalam

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### ABSTRACT

The study titled on "Impact of Microfinance in the services of Rural development with specific reference to downtrodden people at Virudhachalam" clearly states that the Concept, Significance and Salient features of Microfinance in the services of Rural Development. It also explains how the Microcredit plays a vital role in the development of Rural folks especially for the development of Women. The main focus of the study is to understand how the Microcredit acts as a tool of poverty alleviation and empowerment. The research design used for the study is "Conceptual Theory" provides the structure for the whole study based on Experience and enquiries made from rural folks. Hence, the suggestions, recommendations are constructed which is considered to be the predominant part of the study.

### KEYWORDS

#### INTRODUCTION

The role of financial sector in the process of economic development has been well recognized and the role played in stimulating substantial economic development has been emphasized by eminent economists like KALEEKI and KEYNES. The relationship between financial development and economic growth has been emphatically attributed in the pioneering works of Goldsmith (1969) McKinnon (1973) & Shor (1973). Economic Development of a Country can be achieved only with the upliftment of Village folks as 70% of the population lives in villages consisting of Farmers, Agricultural workers, Rural artisans and Small industrial workers. Socio economic development of rural areas is of crucial significance in the framework of integrated growth and social justice.

"India is a rich country where poor people live" states an age old saying. Alleviation of poverty has been an important issue before the developing nations of the world. The intensity of poverty is high in India. Roughly about 300 millions of our people are below poverty line. People in general and rural people particularly are largely illiterate unaware and lack courage to approach to formal credit institution for their credit needs. According to a World Bank estimates in 1995 the formal financial system reaches only the 25% of the economically active population.

#### MICROFINANCE & MICROCREDIT

The concept of Microfinance (MF) is defined as providing credit, thrift and finance related services and products of very small amount to the poor for alleviation of poverty. These financial services may include savings, credit, Insurance, Leasing, Money Transfer to meet their financial needs viz life style, economic opportunity and emergency (Das Gupta and Rao 2003) with the only condition that (i) transaction value is small and (ii) Customers are poor – micro credit is different from other credits. Self Help Groups are the best form of MFIs in India working for the last three decades. SHG model of MFI is virtually important and best gateway to the poor's reach.

Microfinance or micro credit has been widely recognized as a key strategy for poverty alleviation and economic empowerment. The global summit on Microfinance held out Washington on Feb 1997 set a global target of covering million poor families with credit by 2005. It was assessed that 20-30 million world be only in India. Since 30% of the poor are Women, they are ready to adopt microfinance. The Self Help Groups are the front running organizations improvising micro credit to women.

#### The salient features of Micro finance are as follows:

- It is a tool for empowerment of the poorest
- Credit is delivered through Self Help Group
- It is essentially for promoting self empowerment and productivity.
- It is used for direct income generation and consumption smoothing.
- It is not just a financing system but a tool for social and economic development
- It is provided for seasonality, allows repayment flexibility, avoid bureaucratic and legal formalities.
- It assists the women to perform traditional roles better and to take up micro entrepreneurship.

Formal Institution – RRBs, Co-operative Banks, Commercial Banks, NABARD, SIDBI, and GOVT owned societies.

Semi Formal Institution- NGOs, NBFCs.

Informal sources - Money lenders, Shop Keepers- Village money

Lenders-Indigenous bankers, landlords, Relatives, Friends.

Micro credit gives more emphasis on loans while micro finance includes support services where channels for thrift, market assistance, technical assistance, capacity building, insurance, social and cultural programmes are opened. Thus, when micro finance is "Credit plus" micro credit is "only credit".

#### PROVISION OF FUNDS:

The credit support was extended by the RBI through State Bank of India initially. The Nationalization of Commercial Banks in 1969 was done with the objective of ensuring credit delivery to the rural and informal sector. Almost 500 Banks including 47 commercial Banks, 124 Regional Rural Banks(RRBs) and 330 cooperative Banks and 3024 NGOs and others are actively involved in microfinance(economic survey) NGOs – 80% of MFIs operate under the society/trust 10% operate under company structure, 2% as cooperative 2% NBFCs 1% local Areas Banks and 5% other institutions.

Cumulative disbursement, Annual outstanding 70% of the micro finance sector is settled in AP, Karnataka, Kerala and Tamil Nadu.

**INITIATION OF RURAL CREDIT:**

The basic objectives of Nationalization of Banks in 1969 and in 1980 were to improve the flow of Institutional credit to poor households in rural area. Commercial Banks through priority sector lending was supposed to play a dominant role and RBI stipulated earn marketing of 40% of all Banks advances for this purpose. Banks have shown disinclination as they could not assess the risk profile and the development weakened in 80s and 90 s. Initiatives were developed to provide supplementary credit by encouraging NGOs to act as facilitators and intermediaries.

The formal structure has legal and regulated components which provide credits and other facilities to the now formal sector comprising of NGOs, SHGs, cluster and federation groups operate outside the legal structure and have demonstrated organizational flexibility and dynamism in repaying.

Microcredit as a tool of poverty alleviation and empowerment has gained credence in development dialogue the world over.

Microfinance has greatly improved the status of Women who have become entrepreneurs even in conservative Muslim families. Andhra Pradesh federation of SHGs has become grain traders producing over a million tons of maize. Women spend more money on education health and greatly benefiting children.

Thus Micro finance dazzles both in concepts and in practical application. Today there are more than 2000 microfinance institutions across the globe serving 16 million households with 100 million members.

**CURRENT SCENARIO**

The socio economic landscape of India has undergone tremendous changes with visible signs of growth momentum in all sectors. However the growth percent is not sustainable unless the benefit of growth is widespread. It has not percolated to the lowest rungs in the socio economic ladder, thus negating the trickledown theory of growth. The rural agricultural sector has not gained the desired momentum of growth. Nevertheless the high growth has raised expectations for better delivery of core public services. If the hope is not fulfilled it may result in social disorder due to social disparity.

Despite spending enormous sums the GOVT has failed miserably to provide every village with the five basics of growth. All weather roads, electricity, telephone functioning schools and functioning health centres. Instead of labour intensive infrastructures, we need capital intensive mechanized devices. Educational and health services are provided by unsackable shaft with political clout. Shaft is not answerable. They are absent. In India, everything is in a mere. There is no proper planning, there is no coordination.

**SCOPE OF THE STUDY**

The study determines the significance of Microfinance Institution's services in the Rural areas. The main criterion has been focused towards the services rendered by the MFIs for the development of downtrodden folks.

**RESEARCH METHODOLOGY:****RESEARCH DESIGN**

The research design followed by the researcher is "Conceptual Structure". This design constitutes the blueprint for the collection, measurement and analysis of Data.

**DATA COLLECTION:**

The researcher is used secondary data for the whole study. Secondary Data are derived from various sources like RBI Bulletin, SBI Newsletter, Websites and Financial Journals.

**SUGGESTIONS:**

- To create awareness among the rural folks.
- Educate them properly.
- To improve health and hygiene at the rural areas.
- Need for focused delivery of financial services to the tail end beneficiaries.
- Greater level of Financial inclusion

**CONCLUSION:**

There are around 800 micro finance institutions in India (MFI) operating various forms- Trusts, societies, cooperatives, Non Banking Financial companies. Further 40% - 5 lakhs poor households are now linked to Banks through over 29,24,973 Self Help Groups as on March 2007(NABARD Annual Report 2006-2007). The big group of Andhra Pradesh, Karnataka, Kerala and Tamilnadu account for 54% of the SHGs and 75% of the Bank credit.

According to Shri. Vijay Mahajan one of the pioneer of microfinance and the founder of Basix, Indian's best known MFI, and an impact study conducted after six years revealed the following

- 52% of the three year plus customer reported an increase in income.
- 23% reported no significant change.
- 25% reported decline.

The reasons for lesser or non growth being unmanaged risk, low productivity lesser price for produce/products Empowerment helps improvement in status, education, health etc. Majority of the microcredit loans are taken for consumption and a minimum for business and productive purpose.

Any problem cannot be viewed in isolation. Indians problem is multidimensional micro finance bristles with problems which cannot be solved by mere distributing loans for poverty alleviation. Moving to next level of economic development our growth model to bring in inclusive growth encompassing the social economic and political inclusion. Developing micro entrepreneurship with organizational and community based support is one way of strengthening inclusive growth. Capacity building among the micro enterprises needs to be done through training and technical assistance in coordination with promotional Agencies.

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