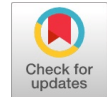


Role of Microfinance and Microcredit in Transforming the Rural India



Shaik Abdul Mazeed, Ch. Dalpadal

Abstract: *Growth of a nation does not refer to the development of infrastructure, innovations and technology. In fact it is truly associated with the development of all citizens in terms of their standard of living. A country travels in development path if all the people are caught up in the process of growth and enjoy quality of living by accessing to basic facilities of life such as food, clothing, housing, health, clean water, education, employment and good natural and social environment. It all happens when economy is sound and have consistent growth rate. In our country the economic growth rate is directly depends on the development of rural areas as it is the backbone to the economy. Providing financial support to rural people is a Hercules task as they do not maintain any formal and necessary documents, failing which banks or any other financial institutions do not grant even a single penny. In this connection, Microfinance and Microcredit institutions helps the people in rural areas with a variety of services with minimal documentation. It includes loan, savings, credit, money transfer, insurance, pension and other financial innovations etc. In this research an attempt is made to ascertain new approaches to measure the impact of microfinance and microcredit in the development of rural areas.*

Key Words: *Microfinance, Microcredit, Financial Services, Economy, Rural India*

I. INTRODUCTION & OVERVIEW

In a country like India, the overall development of the economy totally depends on parallel growth of its rural economy.

During the past half century, microfinance has gained massive importance and impetus in India through the support of cooperative societies and its MFI model. It is fundamentally meant for tiny farmers, households, small businessmen and cottage industries in order to carry their routine business activities. The critical idea of microfinance is to lift up the earnings of rural people.

Microfinance is not a latest phenomenon. It is started as a movement in Bangladesh in 1970s. As time passes it has become a buzzword for economists as it is significantly contributing the development of rural areas. It offers wide-ranging financial services to the people of low-income people or groups especially in rural areas who cannot take bank's assistance. In this day and age, microfinance has gained more importance as it provides better financial services to cater the needs of neglected group of rural areas when compared to traditional bank services.

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*Correspondence Author(s)

haik Abdul Mazeed, Research Scholar (Part-Time), Yogi Vemana University, YSR Kadapa-516005, Andhra Pradesh.

Ch. Dalpadal, Associate Professor, Shankerlal Dhanraj Signodia College of Arts and Commerce & P.G.Centre, Charkaman, Hyderabad-500002, Telangana.

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Microcredit is subset and one of the financial service provided in microfinance, the terms are used interchangeably.

It is aimed to give small amount of loan with very low interest rate to the extreme poor people whose earnings are very low, unemployed, lacking collateral and perhaps to the people whose credit record is not sound. The basic intention behind granting loan is to help people in earning their livelihood thereby to raise living standard. The best thing about microcredit is it does not need any asset as security or guarantee and it is granted for a short period only.

The worth mentioning differences between microfinance and microcredit are:

1. The Scope of microfinance is broad as it provides wide range of financial services where as microcredit is just a component of microfinance and to provide a small loan facility to the needy people.
2. Microcredit focuses only on credit activities, but microfinance take account of both credit and noncredit activities like savings, pension, insurance etc.

II. NEED FOR THE STUDY

Microfinance plays a radical role in any country's economy. It helps the poor people to fulfill their basic needs and safeguard them from financial risks. In turn it raises the per capita income. In the recent years, it has become wider all over world, of course in India also by creating an impact on the lives of the poor. Providing timely and enough money to the needy people in rural areas is a fiery challenge before the central and state governments. In this critical scenario, microfinance is a weapon in the hands of government for overcoming the tough problems of an economy i.e. unemployment and poverty. The concept has gained lot of attention and thrust, both theoretically and practically. It is regarded as a tool for economic development which is intended to extend financial support to rural people. India is still a developing country. Total population of the country is 121.02 crore as per 2011 census, which is equal to 17.5% of the total population of the world. The rural urban population ratio is 68.84: 31.16 (69:31 approximately). There is no doubt that nearly two third of its population still lives in rural areas. Therefore the development of India is directly depends on prosperity of its villages i.e. rural areas. Many projections show that 350 million people live below poverty line In India. Almost Rs. 60000 crores of annual credit is demand by the poor in the country but unfortunately the cumulative payment is only about Rs. 6000 crores only under all microfinance programs. It is just about 10% of the rural people who have access to microfinance (**NABARD, 2017**). Due to lack of any substantial relevant study in the field of microfinance, there is a need for doing research in this area as it significantly contributes in transforming the rural India.



III. REVIEW OF PREVIOUS STUDIES/ LITERATURE

Mansuri (2010): Microfinance is a very vital strategy for financing the requirements of rural people in order to bring notable change in their standard of living and involve them in the process of socio-economic development.

Ledgerwood (2002): Microfinance is the critical thought used in evaluating the results of micro-credit on the rural economy. It offers a broad array of financial services like deposits, insurance, loans, money transfers, payment services and savings to low-income households and their micro-enterprises who are left out of the formal financial sector.

Schreiner & Colombet (2001) explained micro-credit as an attempt to enhance access to small deposits and loans for poor households. The proposition of this is that micro-credit helps the poor to obtain financial services.

Otero (1999) defined micro-credit as 'the provision of financial services to low-income poor and very poor self-employed people in rural areas.' These financial services comprise savings and credit facilities, but can also consist of other such services like insurance and payment services.

IV. OBJECTIVE OF THE STUDY

The study has been undertaken to find out whether the movement of microfinance has really uplifted the living standards and income level of rural people and exploring the various socio-economic dimensions of microfinance and measuring its impact on the well-being of the rural people.

V. RESEARCH DESIGN AND DATA COLLECTION

In this research, the impact of microfinance and microcredit on rural people will be determined by comparing pre and

Table-1: Questionnaire on Impact of Microfinance and Microcredit in the socio economic development of Rural People.

| Sl. No. | Statements | Number / Percentage | SD | D | N | A | SA | Total |
|---------|--|---------------------|----|------|-----|-----|-----|-------|
| 1 | Microfinance has improved the adequate amount of loans to the low-income groups or people in rural area | Number | | | | 4 | 6 | 10 |
| | | Percentage | | | | 40% | 60% | 100% |
| 2 | The Sanctioned loans are applied for the purpose which they were given | Number | | | | 8 | 2 | 10 |
| | | Percentage | | | | 80% | 20% | 100% |
| 3 | Microfinance is really the solution for eliminating poverty, if it is implemented properly | Number | | | | 1 | 9 | 10 |
| | | Percentage | | | | 10% | 90% | 100% |
| 4 | Micro Finance Institutions should be established in the rural areas of the country | Number | | | 1 | 1 | 8 | 10 |
| | | Percentage | | | 10% | 10% | 80% | 100% |
| 5 | Micro Finances charge same interest rates as the mainstream banks | Number | | 10 | | | | |
| | | Percentage | | 100% | | | | |
| 6 | Micro Finance charge low interest rate than the mainstream bank | Number | | | | 8 | 2 | 10 |
| | | Percentage | | | | 80% | 20% | 100% |
| 7 | Low-income group repayloans given to them in time satisfactorily | Number | | | | 8 | 2 | 10 |
| | | Percentage | | | | 80% | 20% | 100% |
| 8 | Households use loans given to them for food, children education, minor house repairs, farming, fishing, health matters and other emergencies | Number | | 7 | | 3 | | 10 |
| | | Percentage | | 70% | | 30% | | 100% |

post socio economic situation. The research is based on both the primary data as well the secondary data. The research is conducted in the rural areas of the Kurnool district of Andhra Pradesh.

For the purpose of collecting the primary data, a purposive random sampling method is used. In this connection a purposive sample of 10 micro financial institutions were selected. Structured questionnaire was designed on five point Likert's scale.

The respondents are field officers, employees at managerial cadre, and executive officers. An in-depth interview has taken from them to know the ground realities, live experiences which they faced during their visit and how it contributes in the process of socio-economic development of rural community.

VI. QUESTIONNAIRE

To measure the impact of microfinance and micro credit on small entrepreneurs in rural areas, a questionnaire was prepared. To collect the data scholar himself visit different villages and meet with the respondent and also took the help of NGO personal working in the local area. Questions related to loans taken from bank, change in income and source of income, change in assets, able to mange bank account, enhancement of leadership quality, change in saving rate, level of mobility self-confidence, general awareness, awareness related to government program and enhancement of decision making capacity were also asked

VII. ANALYSIS OF DATA

The data collected from the field survey were tabulated and analyzed with the help of frequency table, percentile analysis and measures of central tendency.

| | | | | | | | | |
|----|---|------------|--|-----|-----|-----|-----|------|
| 9 | The Government has done enough to support microfinance sector | Number | | 1 | 1 | 1 | 7 | 10 |
| | | Percentage | | 10% | 10% | 10% | 70% | 100% |
| 10 | Many microfinance are fail as a result of fraud and insider abuse | Number | | | 1 | 1 | 8 | 10 |
| | | Percentage | | | 10% | 10% | 80% | 100% |
| 11 | Microfinance really promote business development and bring about economic development | Number | | | | 8 | 2 | 10 |
| | | Percentage | | | | 80% | 20% | 100% |
| 12 | Easy to facilitate loan packaging to Group membership | Number | | | | 9 | 1 | 10 |
| | | Percentage | | | | 90% | 10% | 100% |
| 13 | MFI provides services in the areas of money transfer, savings etc | Number | | | | 8 | 2 | 10 |
| | | Percentage | | | | 80% | 20% | 100% |

*Source: Primary data, SD = Strongly Disagree, D =

Disagree, N = Neutral, A = Agree, SA = Strongly Agree

Interpretation: From the above table it was reported that 80% microfinance failed and could not get success in the target due to the fraudulent activities and insider trading. Microfinance institutions are providing the banking services for the communities that do not have easy access to the mainstream banks and they are providing the economic and social services to change the social status of people so it should be un- political, free from the corruption and more transparent. Respondents also agreed 100% that Microfinance really promote business development and bring about economic development

VIII. CONCLUSION & SUGGESTIONS

Microfinance Institutions are developed with a primary purpose to contribute in the process of socio- economic changes of rural community. Microfinance and Microcredit are not only focusing in the area of loans and savings but also enabling the skill centered revenue generation acts to raise the economic status of rural people. The significance of microfinance was felt indispensable in rural areas due to the lack of infrastructural development. Microfinance activities are very much successful in reducing the social problems faced by the economy such as poverty and unemployment as it inculcated a habit of savings in rural people. Microfinance has significantly developed the business in the rural areas by providing the adequate and enough loan facilities to them. It is also necessary to monitor and control the microfinance activities by the governments in order bring responsibility and transparency in the activities of microfinance institutes. It is recommended that governments should formulate the very effective strategies to control the working mechanism of microfinance institutions as they become part and parcel of Indian economy.

IX. LIMITATIONS OF THE STUDY

1. The research is conducted in the Kurnool district of Andhra Pradesh state.
2. The research cover up a sample of 10 microfinance institutes only, hence the conclusions on cannot be indiscriminate.
3. The study is based on the primary data by collecting opinions of the respondents and it may vary from time to time.

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AUTHOR (S) PROFILE



Shaik Abdul Mazed, Research Scholar (Part-Time), Yogi Vemana University, YSR Kadapa-516005, Andhra Pradesh.
Assistant Professor, Dr. B R Ambedkar Institute of Management and Technology, Baghlingampally, Hyderabad-500044, Telangana.
e-mail ID: mazed22@gmail.com, **Contact No.:** +91-7842819899



Ch. Dalpadal, Associate Professor and Principal, Shankerlal Dhanraj Signodia College of Arts and Commerce & P.G.Centre, Charkaman, Hyderabad-500002, Telangana.
e-mail ID: padal161971@gmail.com